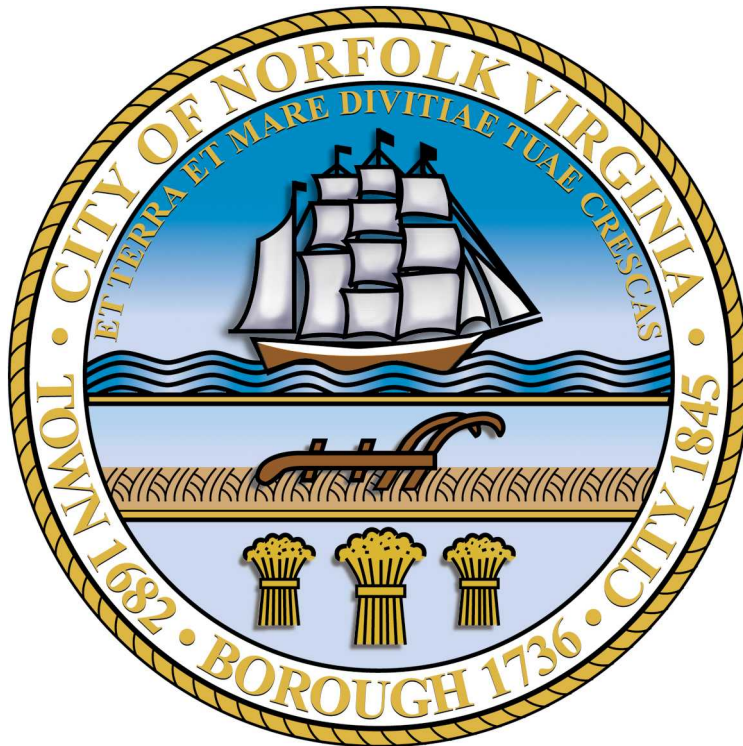

Budget Overview



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ACKNOWLEDGMENTS

The preparation of the city's annual resource allocation plan requires a tremendous amount of hard work and dedication on the part of many people. Developing expenditures and revenue information requires varying sources of data and multiple perspectives.

The FY 2020 Budget includes the assistance of many who deserve acknowledgment and appreciation:

- Residents of the city and civic leagues, particularly those who attended community outreach meetings
- Members of the city's Employee Relations Committee
- Executive budget team
- Department and office directors
- Members of the business community
- Council Appointees
- Constitutional Officers

Special recognition and gratitude to the Office of Budget and Strategic Planning staff who worked to prepare this year's budget.

Director, Office of Budget and Strategic Planning

Gregory Patrick

Office of Budget and Strategic Planning Staff

Allison Alcantara, Brenda Benn, Lauren DiEugenio, Megan Erwin, Patricia Harrison, Misha'el Jones, Kaitrin Mahar, Barbara Muniz, Seth Parker, Cecelia Rieb, Natasha Singh-Miller, Anne Marie Strano, Natasha Turner, Emily Uselton, and Andréa Vargas.

City Manager,



DISTINGUISHED BUDGET PRESENTATION AWARD



GOVERNMENT FINANCE OFFICERS ASSOCIATION

Distinguished Budget Presentation Award

PRESENTED TO

**City of Norfolk
Virginia**

For the Fiscal Year Beginning

July 1, 2018

Christopher P. Morill

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) presented an award of Distinguished Presentation to the City of Norfolk, Virginia for its annual budget for the fiscal year beginning July 1, 2018. The review process by GFOA has not commenced for the annual budget for the fiscal year beginning July 1, 2019.

This prestigious award is presented to governmental entities that prepare budget documents which exhibit the highest qualities in meeting or exceeding both the guidelines established by the National Advisory Council on State and Local Budgeting and GFOA's standards of best practices. Documents submitted for the Budget Awards Program are reviewed by selected members of the GFOA professional staff and by outside reviewers with experience in public-sector budgeting. The award is only valid for a period of one year only. The FY 2020 budget continues to conform to program requirements and will be submitted to GFOA for eligibility.

CITY OF NORFOLK GOVERNMENT

Norfolk City Council is the legislative body of the city government. It is authorized to exercise all the powers conferred upon the city by the Commonwealth of Virginia in the state constitution, state laws, and the Charter of the City of Norfolk.

City Council is composed of eight members. Seven members are elected through a ward system, and the Mayor is elected at large by the residents of Norfolk. These members elect a vice president (Vice Mayor) of the Council. For further information on the duties, powers, and meetings of the Council, call the Office of the City Clerk, 757-664-4253.

The City Council meets the first, second, and fourth Tuesday of each month in Norfolk City Hall. There are two formal meetings held at 7:00 p.m. in the Council Chambers on the second and fourth Tuesday. Work sessions are held prior to the formal meetings and on the first Tuesday of each month. Starting times of the work sessions are determined by the agenda.

The City of Norfolk operates under a Council-Manager form of government whereby the Council appoints a chief executive, the City Manager, Douglas L. Smith. The Council also appoints a City Attorney, Bernard A. Pishko; City Auditor, Tammie Dantzler; City Clerk, Richard A. Bull; and City Real Estate Assessor, W.A. (Pete) Rodda.

NORFOLK CITY COUNCIL AND CITY MANAGER



Mayor
Kenneth Cooper Alexander



Vice Mayor
Martin A. Thomas Jr.
Ward 1



Council Member
Courtney Doyle
Ward 2



Council Member
Mamie B. Johnson
Ward 3



Council Member
Paul R. Riddick
Ward 4



Council Member
Thomas R. Smigiel Jr.
Ward 5



Council Member
Andria P. McClellan
Super Ward 6



Council Member
Angelia Williams-Graves
Super Ward 7



City Manager
Douglas L. Smith

CITY OF NORFOLK WARD MAP

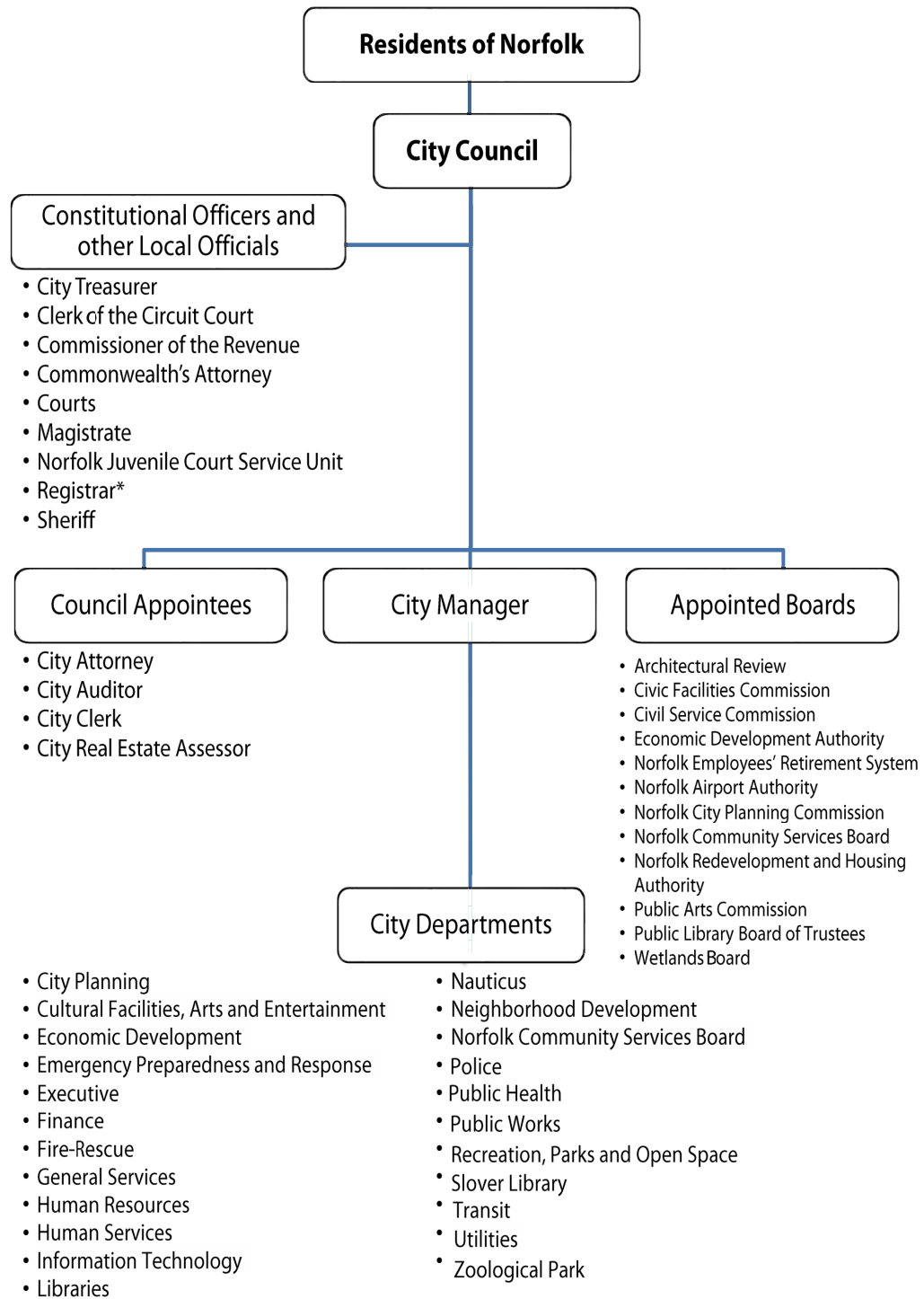


CITY COUNCIL'S VISION FOR NORFOLK

Vision Statement

- Norfolk is a national leader in the quality of life offered to all its citizens.
- This is achieved through effective partnerships between city government and its constituents.
- As a result, Norfolk is a physically attractive, socially supportive, and financially sound city.
- Here, the sense of community is strong.
- Neighborhoods are designed so that people of all ages can know their neighbors and travel the streets and sidewalks safely.
- The sense of community exists citywide.
- Norfolk is known nationally as a strategically located place where there are abundant and fulfilling employment, recreational, and educational opportunities.

CITY OF NORFOLK ORGANIZATIONAL CHART



*Appointed by State Board of Elections

READER'S GUIDE TO THE BUDGET

PURPOSE

The budget is an instrument that sets policy and summarizes public service programs provided by the city government and how the programs are funded. It is the annual plan for coordinating revenues and expenditures. The budget presented covers the period of **July 1, 2019 to June 30, 2020**. The amounts for FY 2020 are adopted through the appropriation ordinance adopted by the City Council. The Adopted Budget document may include technical changes made after the City Manager's presentation of the proposed budget to the City Council.

BUDGET OVERVIEW

This section provides information on budget and financial policies, fund structure, basis of budget and accounting, budget process, budget calendar, and the city's organizational chart. The section also includes revenue and expenditure summaries, discussion of major revenue sources, indebtedness, and personnel staffing. Historical revenue and expenditure amounts for FY 2018 provided in the summaries do not include designations and financial adjustments posted after June 30, 2018. FY 2020 adopted amounts may include technical changes made after the City Manager's presentation of the proposed budget to the City Council.

GENERAL FUND REVENUE AND EXPENDITURE

The General Fund is used to account for primary government services. A summary of historical and estimated revenue from each source is provided for the General Fund. For each department within the General Fund, a summary of historical and approved expenditures is provided. Historical revenue and expenditure amounts for FY 2018 do not include designations and financial adjustments posted after June 30, 2018. FY 2020 adopted amounts may include technical changes made after the City Manager's presentation of the proposed budget to the City Council.

CITYWIDE PRIORITIES AND FOCUS AREAS

This section provides an overview of the city's focus areas and strategic direction.

ANNUAL GRANTS PLAN

This section provides an overview of the grants that the city anticipates to receive annually from federal, state, and other agencies that are dedicated for specific purposes. This is the first year this information is included in the city's budget document and was added to give readers a more complete picture of the city's resources available to provide programs and services for residents.

DEPARTMENT BUDGETS

This section provides detailed information on the budget of each department within the General Fund. A brief description of Adopted FY 2020 budget actions and their impact on the budget and full time equivalent (FTE) personnel are provided in this section. Historical revenue and expenditure amounts for FY 2017 and FY 2018

provided in the department summaries do not include designations and financial adjustments posted after June 30 of each fiscal year. FY 2020 adopted amounts may include technical changes made after the City Manager's presentation of the proposed budget to the City Council.

DEPARTMENT BUDGET STRATEGIES

The Adopted FY 2020 Budget is based in the city's economic reality. It reflects reductions to departments that were thoughtful, developed with participation across the organization, and were not across the board, while continuing to fund the Council's priorities.

PUBLIC SCHOOL EDUCATION

This section provides information on the adopted appropriation for Norfolk Public Schools. FY 2020 adopted amounts may include technical changes made after the City Manager's presentation of the proposed budget to the City Council.

SPECIAL REVENUE, ENTERPRISE, AND INTERNAL SERVICE FUNDS

These sections provide detailed information on the adopted budget of the city's Special Revenue, Enterprise, and Internal Service Funds. A brief description of the Adopted FY 2020 budget actions and their impact on the budget and full time equivalent (FTE) personnel are provided in this section. Historical revenues and expenditures for FY 2017 and FY 2018 provided in the department summaries do not include designations and financial adjustments posted after June 30 of each fiscal year. FY 2020 adopted amounts may include technical changes made after the City Manager's presentation of the proposed budget to the City Council.

UNFUNDED REQUESTS

The city began FY 2020 Budget Development with a base budget gap. Growth in ongoing revenues did not support corresponding growth in expenditures required to maintain the same level of service as FY 2019. With finite resources, the FY 2020 budget required strategies to grow revenue, reduce expenditures, and enhance existing service levels. Collectively, the Adopted FY 2020 Budget achieves structural balance, where ongoing revenues match ongoing expenditures. With an initial base budget gap, the city cannot afford to fund all enhancements requested by departments. The Unfunded FY 2020 Budget Requests report shows enhancements that were requested by departments, but not funded in the Adopted FY 2020 Budget.

CAPITAL IMPROVEMENT PLAN

The city's debt service as a percentage of the General Fund budget must not exceed eleven percent (11%). Net debt, as a percentage of property, must not exceed four percent (4%). Due to these affordability measures, the city cannot afford to fund all requested General Capital projects. Over the past decade CIP projects have averaged nearly \$100 million annually. As a result, the city is drawing close to the self-imposed debt affordability measures. The five-year outlook for CIP projects reflects a maintenance phase until debt service obligations from recent generational projects is reduced. The Unfunded CIP Request Report shows projects that were requested by departments, but not included in the five-year Capital Improvement Plan.

ANNUAL PLAN - U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD) ENTITLEMENT GRANT PROGRAM

This section contains the Annual Plan for the Community Development Block Grant (CDBG), HOME Investment Partnerships Program, and Emergency Solutions Grant Program. The Annual Plan identifies the annual funding of the city's priority community development projects and activities as outlined in the five-year Consolidated Plan. FY 2020 adopted amounts may include technical changes made after the City Manager's presentation of the Proposed budget to the City Council.

NORFOLK STATISTICAL INFORMATION

This section provides statistical and general information about the city such as an overview of the organization, services, and selected functions.

ORDINANCES, GLOSSARY, AND INDEX

The ordinances adopted by City Council includes establishing the operating, capital improvement plan, annual grants, and the Annual Plan budget. The glossary provides definitions of budget-related terminology. The index contains an alphabetical reference of information contained in the document.

FINANCIAL POLICIES

OPERATING BUDGET

The operating budget for the city is developed pursuant to Section 67 of the Charter of the City of Norfolk, Virginia. In accordance with the City Charter, the City Manager submits to the City Council, no less than 60 days before the end of the fiscal year, a proposed operating budget for the ensuing fiscal year. The operating budget includes expenditure amounts based on detailed estimates furnished by departments and other divisions of the city government. The budget is presented in a manner that identifies appropriations, taxes, and estimated revenues with comparative statements. The budget is prepared by fund and department.

Following the formal presentation of the proposed budget by the City Manager, a public hearing is conducted to provide an opportunity for the public to make comments on the proposed operating budget and any proposed tax and fee adjustments such as, proposed changes to the real estate tax rate. The public hearing for the operating budget is held at least seven days prior to City Council's approval of the budget. City Council is required to approve a final operating budget no later than 30 days before the end of the current fiscal year.

The formal approval of the budget is executed by the adoption of the ordinance delineating appropriations by fund. Additional budget controls are exercised administratively on an appropriation unit basis over combinations of object categories (account groups: personnel services, materials, supplies and repairs, contractual services, equipment, public assistance, department specific appropriation, and debt service), as well as on a line item basis over individual objects (budget accounts). Departments may transfer funds within a departmental budget with approval from the City Manager or the Office of Budget and Strategic Planning.

The City Manager or designee is authorized to transfer from any department, fund, or activity which has an excess of funds appropriated for its use to any department, activity, or fund all or any part of such excess. Basic policies and guidelines for the development of the city's annual budget are provided below.

The administration is committed to high standards of financial management and currently maintains and follows financial practices and guidelines. On February 26, 2019, City Council passed a resolution to update the city's policies on reserves, debt affordability, and surplus funds utilization, and adopt new financial policies on pension funding and enterprise fund financial management. Financial policies demonstrate commitment to consistent financial practices, operational efficiencies, and best practices; preserve fiscal integrity; and improve fiscal stability to promote long-term fiscal sustainability. Sound financial management practices contribute to maintaining high city credit ratings and lower borrowing costs for capital projects.

RESERVE FUND

Description	Policy
General Fund Unassigned Reserve	Increase minimum to ten percent (10%) and adjust calculation methodology to percentage of General Fund expenditures plus General Fund transfers out.
Risk Management Reserve	Raise maximum funding to eight million (\$8,000,000) dollars and no less than five million dollars (\$5,000,000).
Economic Downturn Reserve	Fund at no less than two and one-half percent (2.5%) of the three (3) year average of real estate tax revenues, not-to-exceed five million dollars (\$5,000,000).

Reserve Fund (continued)

Description	Policy
Inclusive Development Opportunity Fund	Create a reserve to support inclusive economic growth, with a targeted threshold of two million (\$2,000,000) funding.
Reserve Replenishment	In the event a reserve is used to provide for temporary funding needs, the city shall restore the reserve to the minimum level within five (5) fiscal years following the fiscal year in which the event occurred.

PENSION FUNDING

Description	Policy
Pension Funding Policy	Contribute each year an amount greater than the prior year's contribution or the current year's actuarially defined contribution until 100% funded.

DEBT AFFORDABILITY MEASURES

Description	Policy
Net Debt as a Percent of the Total Assessed Value of Taxable Property	Keep General Fund net debt below three and one-half percent (3.5%) with a not-to-exceed of four percent (4.0%) of the total assessed value of taxable property.
Debt Service as Percent of General Fund Budget	Keep General Fund debt service below ten percent (10%) with a not-to-exceed of eleven percent (11%) of General Fund budget.
Ten-year (10) General Obligation Payout Ratio	Strive to repay the principal amount of the long-term general obligation bonds by at least fifty-five percent (55%) or greater within ten (10) years.
Overlapping Debt – e.g. Special service district financing or tax increment financing that would be subject to annual appropriation	The total amount of overlapping debt not to exceed one-half percent (0.5%) of total assessed value of taxable property.
Variable Rate Debt	Limit the city's outstanding debt with variable interest rate to no more than twenty percent (20%) by fund.

USE OF SURPLUS

Description	Policy
Surplus Policy	Use of Surplus
	1 If reserves are not at their required minimum. Entire prior fiscal year-end surplus will fund reserves until the minimum requirement of each reserve has been met.
	2 If reserves have met the required minimum, but not the maximum. Fifty percent (50%) of prior fiscal year-end surplus will fund reserves and fifty percent (50%) will cash fund (pay-go) the Capital Improvement Plan.
	3 If reserves are fully funded at the maximum requirement. Entire prior fiscal year-end surplus will cash fund (pay-go) the Capital Improvement Plan or one-time technology and equipment purchases.

PARKING FUND

Description	Policy
Debt Service Coverage	Maintain debt service at a minimum of 1.1 times.
Unrestricted Cash	Maintain a minimum of 240 days of operating and maintenance expense.
Repair & Replacement Reserve	Establish a repair and replacement reserve of one million dollars (\$1,000,000) within five (5) years.
Ten-Year Financial Plan	Develop a ten-year financial plan annually that integrates revenue and expense projections and project cashflow forecasts relative to the financial policies.

WATER UTILITY FUND

Description	Policy
Debt Service Coverage	Maintain debt service at a minimum of 1.5 times gross of ROI and PILOT.
Unrestricted Cash	Maintain a minimum of 240 days of operating and maintenance expense.
Repair & Replacement Reserve	Establish a repair and replacement reserve of two million dollars (\$2,000,000) within five (5) years.
Return on Investment ("ROI")	The General Fund ROI transfer from the Water Utility Fund shall not exceed \$8.5 million in a given year. Additional transfers may only be considered in the event the Water Utility Fund receives one-time, significant revenues and provided that the additional transfer would not cause the Fund to fail to adhere to any other financial policies.
Payment in Lieu of Taxes ("PILOT")	The PILOT paid by the Water Utility Fund to the General Fund to be based on the taxable assessed value of real property using the applicable tax rate.
Ten-Year Financial Plan	Develop a ten-year financial plan annually that integrates revenue and expense projections and project cashflow forecasts relative to the financial policies.

WASTEWATER UTILITY FUND

Description	Policy
Debt Service Coverage	Maintain revenue bond debt service at 1.15 times and 1.1 times combined coverage (General Obligation and Revenue) minimum gross of ROI and PILOT.
Unrestricted Cash	Maintain a minimum of 180 days of operating and maintenance expense.
Repair & Replacement Reserve	Establish a repair and replacement reserve of one million dollars (\$1,000,000) within five (5) years.
Return on Investment ("ROI")	The General Fund ROI Transfer from the Wastewater Utility Fund shall not exceed \$1.5 million in a given year. Additional transfers may only be considered in the event the Wastewater Utility Fund receives one-time, significant revenues and provided that the additional transfer would not cause the Fund to fail to adhere to any other financial policies.

Wastewater Utility Fund (continued)

Description	Policy
Payment in Lieu of Taxes ("PILOT")	The PILOT paid by the Wastewater Utility Fund to the General Fund to be based on the taxable assessed value of real property using the applicable tax rate.
Ten-Year Financial Plan	Develop a ten-year financial plan annually which integrates revenue and expense projections and project cashflow forecasts relative to the financial policies.

STORM WATER UTILITY FUND

Description	Policy
Debt Service Coverage	Maintain revenue bond debt service coverage minimum at 1.15 times coverage and 1.1 times combined coverage (General Obligation and Revenue).
Unrestricted Cash	Maintain a minimum of 180 days of operating and maintenance expense.
Repair & Replacement Reserve	Establish a repair and replacement reserve of one million dollars (\$1,000,000) within five (5) years.
Ten-Year Financial Plan	Develop a ten-year financial plan annually that integrates revenue and expense projections and project cashflow forecasts relative to the financial policies.

CAPITAL IMPROVEMENT PLAN

The city uses several guiding principles and best practices to manage the Capital Improvement Plan (CIP). The principles (see Guiding Principles under CIP section) governing the CIP are closely linked with the debt affordability measures in the financial policies described in the previous section. Using the principles as a foundation, the CIP is developed to promote capital infrastructure to support the city policies by establishing a five-year capital implementation plan. In formulating this long-range plan, input is solicited from various parties such as city departments, City Council, residents, and businesses. The CIP includes projects that meet the following city policy areas (see CIP section for definitions):

- Education
- Economic Development
- Environmental Sustainability
- Cultural Facilities
- General and Other
- Neighborhood Development
- Public Buildings
- Parks and Recreation Facilities
- Transportation

To be included in the CIP, the project must cost \$75,000 or more and should extend the life of the asset by more than the life of the debt instrument used to finance the improvement or grant program. Various sources of funding are used to fund the CIP. These sources include General Fund supported debt and nongeneral fund supported

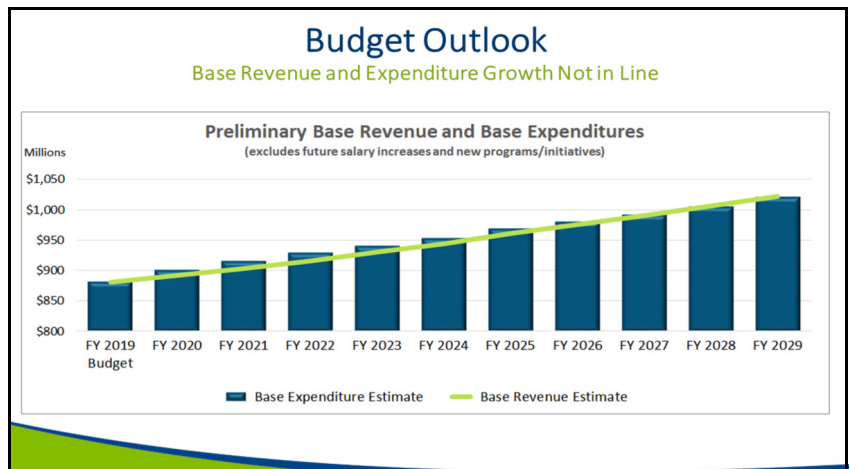
debt, such as revenue bonds or cash contributions from various resources. For general capital improvements, the city strives to achieve an annual pay-as-you-go cash contribution.

MULTI-YEAR PLANNING

The city's multi-year planning process includes preparing a ten-year base budget forecast annually. The ten-year forecast of base revenues and expenditures enables the city to identify long-term financial challenges and plan for the upcoming fiscal year's budget. In addition, the annual budget development process incorporates a two-year lens, whereby each recommended budget action is analyzed to determine its impact not just in the upcoming fiscal year but also in the following year.

In the summer of each fiscal year, the Office of Budget and Strategic Planning initiates the process of compiling information for the ten-year forecast from city departments, regional and city partner agencies, state and federal agencies, and state and regional economists. During FY 2019, the Office of Budget and Strategic Planning integrated the ten-year forecast submission process in the performance budgeting ("budget") system. As a result of the budget system enhancement, items in the ten-year forecast were seamlessly incorporated in the department's base budget for the upcoming fiscal year (FY 2020). The ten-year forecast compiled during the summer was refined and presented to the City Council at the fall financial update in October 2018. The ten-year base revenue forecast is updated to reflect actions in the proposed and adopted budgets. Also, adopted FY 2020 budget actions that impact the following fiscal year's base budget will be incorporated in the start point of the following year's ten-year forecasting process.

The ten-year base budget forecast annually incorporates adjustments to base revenues and expenditures due to: state, federal, and local mandates; debt and other inflationary or contractual cost increases needed to maintain existing levels of service; the estimated impact of the Norfolk Public Schools (NPS) revenue sharing formula; obligations related to regional partnerships; the opening of new city facilities; economic development projects coming to fruition; national, state, and regional economic forecasts; state budget actions enacted by the General Assembly; state budget forecasts; annualization of prior year prorated costs; and removal of one-time budgetary items. However, the base revenue and expenditure forecast does not include: new fees; fee or tax rate changes; the cost of budget enhancements such as, future salary increases, new programs or initiatives, and program or service expansion; or policy changes under consideration and requiring City Council or administrative action. The chart above summarizes the General Fund's ten-year base budget forecast presented to City Council in October 2018. This preliminary base budget outlook provided the start point of the development of the budget for the upcoming fiscal year (FY 2020) as well as the base budget outlook for the following year. The ten-year forecast is also considered for monitoring the city's debt affordability measures.



FUND STRUCTURE

The city uses fund accounting to ensure and demonstrate compliance with finance-related legal and regulatory requirements. A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The city's funds can be divided into four categories: governmental funds, proprietary funds, component unit funds, and fiduciary funds.

GOVERNMENTAL FUNDS

Governmental funds consist of the General Fund, Special Revenue Funds, Capital Projects Fund, Debt Service Funds, and Permanent Fund. Most governmental functions of the city are financed through these funds. Governmental funds are supported by taxes and intergovernmental revenues. The modified accrual basis of accounting is used for the budgets of all governmental funds.

General Fund

The general operating fund of the city accounts for all financial transactions of the general government, except those required to be accounted for in another fund. The General Fund accounts for the city's normal recurring activities such as police, fire-rescue, public education (K-12), and public works. These activities are supported by revenue from: general property and other local taxes; permits, fees and licenses; fines and forfeitures; use of money and property; charges for services; recovered costs; and aid from the Commonwealth and Federal Government.

Special Revenue Funds

The Special Revenue Funds account for the proceeds of specific revenue resources restricted or committed to expenditure for specific purposes (other than expendable trusts or major capital projects) and require separate accounting because of legal or regulatory provisions or administrative action.

Capital Projects Fund

The Capital Projects Fund accounts for the acquisition, construction, or renovation of major capital facilities of the city and Norfolk Public Schools.

PROPRIETARY FUNDS

Proprietary funds consist of Enterprise Funds and Internal Service Funds. Enterprise Funds account for operations similar to those found in the private sector and include Water Utility, Wastewater Utility, Storm Water Management, and Parking Facilities. Internal Service Funds account for the financing of goods and services provided by one department to other departments in the city on a cost reimbursement basis and include Healthcare and Fleet Management. The Proprietary Funds measurement focus is based upon determination of net income, financial position, and changes in financial position.

Enterprise Funds

Water Utility Fund

This fund accounts for the operations of the city-owned water system. The cost of providing services is financed or recovered through user charges to customers, which include Norfolk residents, commercial customers, the U.S. Navy, and other regional localities and authorities.

Wastewater Utility Fund

This fund accounts for the operation of the city-owned wastewater (sewer) system. The cost of providing services is financed or recovered through user charges to Norfolk residential and commercial customers.

Storm Water Management Fund

This fund accounts for the operation of the environmental storm water management system, including maintenance of storm water drainage facilities. The cost of providing services is financed or recovered through user charges to Norfolk residents and commercial and industrial customers.

Parking Facilities Fund

This fund accounts for the operation of city-owned parking facilities (garages, lots, and on-street meters). The cost of providing services is financed or recovered through user charges for long-term and short-term customer use and fines for parking violations.

Internal Service Funds

Healthcare Fund

This fund accounts for the financing of medical coverage provided to employees of the Norfolk Healthcare Consortium through a city-administered health insurance plan. The Consortium includes the City of Norfolk, Norfolk Public Schools, and the Norfolk Redevelopment and Housing Authority. Employees and the Consortium share the costs of the health insurance premium. Medical claims, administrative costs, wellness program costs, fees related to the Affordable Care Act, and benefit consultant expenses are paid by the Healthcare Fund.

Fleet Management Fund

This fund accounts for the maintenance, repair, and service for the city fleet of vehicles, heavy equipment, and miscellaneous machinery on a cost reimbursement basis.

COMPONENT UNIT FUNDS

Education

The city's total budget includes the funds of the Norfolk Public Schools. The primary sources of revenue are the city's local contribution, basic school aid and sales tax revenues from the state, and educational program grants. Major expenditures are for instructional salaries and schools' facility operating costs.

School Operating Fund

The School Operating Fund is the General Fund of the School Board. It accounts for all financial resources except those required to be accounted for in another fund, such as School Nutrition Services.

School Grants

This fund accounts for revenues and expenditures for federal, state, and other grants for educational programs.

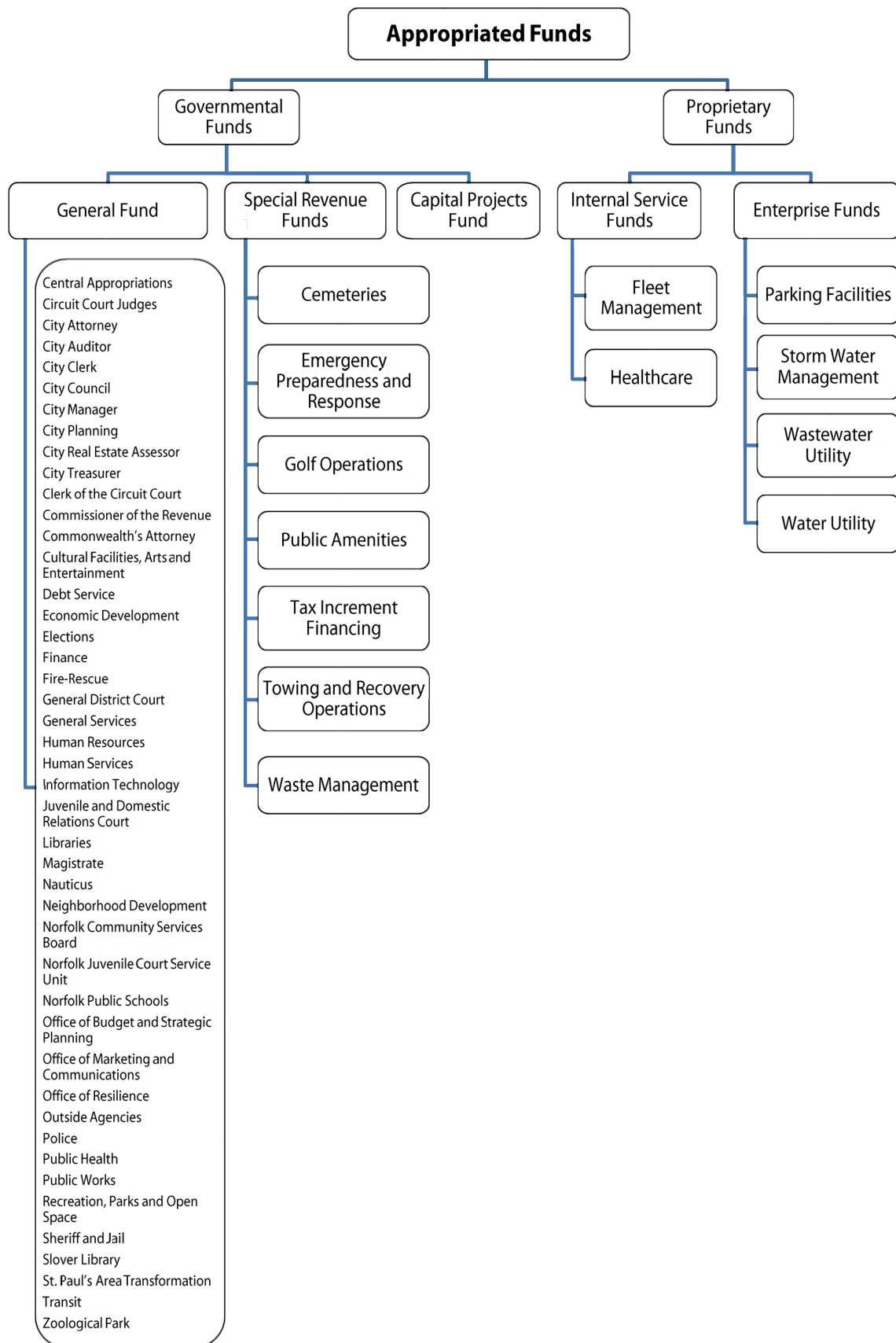
School Nutrition Services

This fund supports the school breakfast and lunch program. School Nutrition Services is a self-funded non-reverting operation supported through cafeteria sales and federal and state reimbursements.

FIDUCIARY FUNDS AND PERMANENT FUND

Fiduciary Funds are used to account for resources held for the benefit of parties outside the city and include the city's Pension Trust Fund, Commonwealth of Virginia Agency Fund, and Other Agency Fund. The Permanent Fund is used to report resources legally restricted to the extent that only earnings (not principal) may be used to support the program and includes the Cemetery Endowed Care Fund. Fiduciary and Permanent Funds are not included in the city's budget, since its resources are not available to support the city's own programs. Fiduciary Fund statements are presented separately within the city's Comprehensive Annual Financial Report.

FUND STRUCTURE



BASIS OF BUDGETING AND ACCOUNTING

BASIS OF BUDGETING

The budgets of governmental fund types (General Fund, Special Revenue, and Capital Projects Funds) of the city are generally prepared on the modified accrual basis of accounting. The accrual basis of accounting is generally used to budget for the Enterprise Funds and Internal Service Funds except for depreciation, debt principal payments, capital outlay, and contractual commitments (see Basis of Accounting below).

For the modified accrual basis, expenditures are recorded as expenditures when the related fund liability is incurred (other than interest on general long-term liabilities). For budgetary purposes, purchase orders issued and other contractual commitments are considered expenditures when executed. Revenues are recorded when they are measurable and available. The accrual basis recognizes expenses when the liability is incurred regardless of the related cash flows. Revenues, however, are recognized when earned. The accrual methodology is based upon known present and future expenses and revenues and not upon cash spent or received.

The level of control at which expenditures may not exceed the budget is at the department level for the General Fund and fund level for all other funds. The City Manager or designee is authorized to transfer from any department, fund, or activity with excess funds appropriated to any department, fund, or activity all or any part of such excess appropriation. Appropriations lapse at the end of the fiscal year, except appropriations that are designated or are for the Grants (Special Revenue) and Capital Improvement Programs, which are carried forward until the designation, grant, or project is completed or terminated.

BASIS OF ACCOUNTING

The Comprehensive Annual Financial Report (CAFR) presents the status of the city's finances in accordance with Generally Accepted Accounting Principles (GAAP). In most cases this conforms to how the city prepares its budget. Exceptions are as follows:

- Compensated absences are recorded as earned by employees (GAAP basis), as opposed to being expended when paid (Budget basis);
- Principal payments on long-term debt within the Proprietary Funds reduce the amount of debt remaining on a GAAP basis as opposed to being expended on a Budget basis;
- Capital Outlay within the Proprietary Funds is recorded as assets on a GAAP basis and expended on a Budget basis;
- Depreciation expenses are recorded on a GAAP basis only; and,
- Recording unfulfilled purchase orders and contractual obligations as expenditures in the year executed.

In addition to the fund financial statements, government-wide financial statements are prepared on the accrual basis of accounting. In government-wide financial statements, certain funds are grouped together for reporting purposes.

BUDGET PROCESS

FORMULATION OF THE CITY MANAGER'S BUDGET

The City Charter requires the City Manager to prepare and submit to the City Council an annual budget.

The annual budget process commences at the beginning of the fiscal year. The budget calendar establishes the timeline for the process, dates for submission of department requests, budget work sessions, and public hearings leading to final adoption of the budget.

Department requests are based on budget instructions. Each request must relate to the organization's program objectives and the priorities of the city. The requests are received and compiled by the budget staff. Due to revenue constraints, departments are generally encouraged to develop proposals to realign or reduce expenditures rather than seek additional funding.

An operating budget is adopted each fiscal year for the General Fund, Enterprise Funds (Water Utility, Wastewater Utility, Storm Water Management, and Parking Facilities), Special Revenue Funds (Cemeteries, Emergency Preparedness and Response, Golf Operations, Public Amenities, Tax Increment Financing, Towing and Recovery Operations, and Waste Management), and Internal Service Funds (Fleet Management and Healthcare). Budgets are also individually adopted within the Special Revenue (Grants) Fund. Ordinances are generally adopted when a grant to the city has been awarded. Recurring grants identified in the Annual Grants Plan section are appropriated as part of the operating budget ordinance.

All funds are under formal budget control, the most significant of which is the General Fund. No less than sixty days before the end of the current fiscal year, the City Manager submits to the City Council a proposed operating budget for the next fiscal year. The operating budget includes recommended expenditures and the means to finance them. The adopted budget may include technical changes made after the City Manager's presentation of the proposed budget to City Council.

CITY COUNCIL'S AUTHORIZATION AND APPROPRIATION

After general distribution of the proposed budget, public hearings are conducted to obtain comments and recommendations from the public. No less than thirty days before the end of the fiscal year, the City Council shall pass an annual appropriation ordinance which shall be based on the budget document submitted by the City Manager and subsequent changes made by the City Council. The annual operating budget ordinance appropriates funding for use by departments for salaries, benefits and positions, and nonpersonnel as set forth in the detailed budget document. Amounts appropriated to each department are intended to be expended for the purposes designated by object group categories including: personnel services; materials, supplies and repairs; contractual services; equipment; public assistance; department specific appropriation; and debt service.

CITY MANAGER'S AUTHORIZATION

In accordance with the City Charter, at least sixty days before the end of each fiscal year, the City Manager shall prepare and submit to the City Council an annual budget for the ensuing fiscal year. The budget shall be balanced at all times. The total amount of appropriations shall not exceed the estimated revenues of the city.

In a given year, the City Manager or designee is authorized to transfer from any department, fund, or activity with excess funds appropriated to any department, fund, or activity as necessary.

BUDGET IMPLEMENTATION

Once the budget is adopted, it is effective on July 1 and becomes the legal basis for the programs and services of each department of the city during the fiscal year. No department or other agency of the city government may spend in excess of adopted and appropriated amounts, unless authorized by budget transfer as approved by the City Manager or designee. Financial and programmatic monitoring of departmental activities to ensure conformity with the budget takes place throughout the year. The budget can be found in the libraries and on the city website. The City Manager is responsible for maintaining a balanced budget at all times. In the event a gap is identified between revenues and expenditures, the City Manager will take actions necessary to rebalance the budget. Budget amendments may be made by the City Council to meet the changing needs of the city. The means by which the City Council may amend the budget include, but are not limited to, appropriation of additional funds and decreasing the amount of appropriated funds.

CAPITAL IMPROVEMENT PLAN, ANNUAL GRANTS PLAN, AND ANNUAL PLAN

City Council also adopts a Capital Improvement Plan, Annual Grants Plan, and the Annual Plan budget. These budgets are submitted by the City Manager with the operating budget, and public hearings are held and the budgets are legislatively enacted through adoption of ordinances.

Appropriations for project funds and grant funds do not lapse at year end, but continue until the purpose of the appropriation has been fulfilled or terminated. Amendments to these budgets may be affected by City Council actions. The level of budget control is on a project basis with additional administrative controls being exercised.

BUDGET PRINCIPLES AND POLICIES

These include the following:

- Provisions to strive for a structurally balanced budget whereby ongoing expenditures are supported by ongoing revenues;
- Preparation of a mid-year budget update, reporting projected revenues and expenditures for the entire fiscal year and receipt of unanticipated revenues and other major changes to the adopted budget;
- Preparation of a ten-year forecast, which serves as the basis for the City Manager's annual recommended budget; and
- Requirement that the City Manager prepare a Five-Year Capital Improvement Plan that incorporates operating costs and is stated in "year of expenditure dollars."

BUDGET CALENDAR

Date	Responsible Party	Description	Legal Requirement
September 2018 - December 2018	City Departments	Department Program Catalog Development with Budget Staff Departments Submit Operating and Capital Improvement Budget Requests	N/A
November 2018 - February 2019	Budget and Strategic Planning Executive Staff City Departments	Department Meetings with Budget Staff and Operating and Capital Budget Committees Operating and Capital Budget Committee Meetings	N/A
February 2019	Budget and Strategic Planning	City Manager's Mid-Year Budget Review and Financial Update	N/A
October 2018 - March 2019	Budget and Strategic Planning Marketing and Communications	Community and Employee Outreach	N/A
March 26, 2019	City Manager	City Manager Presentation of Proposed Budget to City Council	City of Norfolk Charter Sec. 67
March 27, 2019	City Clerk	Public Hearing Notice of the HUD Grant (CDBG, ESG, and HOME) Budget	U.S. Department of Housing and Urban Development (HUD)
April 1, 2019	Norfolk Public Schools	Submission of School Board's Proposed Operating Budget to City Council	Code of Virginia 15.2-2503
April 2, 2019	City Council	1 st City Council Worksession	N/A
April 3, 2019	City Clerk	Public Hearing Notice of the Operating and Capital Improvement Plan Budgets	Code of Virginia 15.2-2506, 58.1-3007
April 5, 2019	City Clerk	Public Hearing Notice of the Real Estate Tax Increase (due to increased reassessment)	Code of Virginia 58.1-3321
April 9, 2019	City Council	2 nd City Council Worksession	N/A
April 10, 2019	City Council	Public Hearing on the Operating, Capital Improvement Plan, and HUD Grant (CDBG, ESG and HOME) Budgets	Code of Virginia 15.2-2506, 58.1-3007 U.S. Department of Housing and Urban Development (HUD)
April 23, 2019	City Council	3 rd City Council Worksession	N/A
May 7, 2019	City Council	4 th City Council Worksession Public Hearing on the Real Estate Tax Increase (due to increased reassessment)	N/A Code of Virginia 58.1-3321
May 14, 2019	City Council	City Council Budget Adoption	City of Norfolk Charter Sec. 68 Code of Virginia 15.2-2503
June 25, 2019	City Council	Public Hearing/Adoption - Recreational Boat License Tax Increase and Personal Property Recreational Boat Tax Decrease	Code of Virginia 58.1-3007

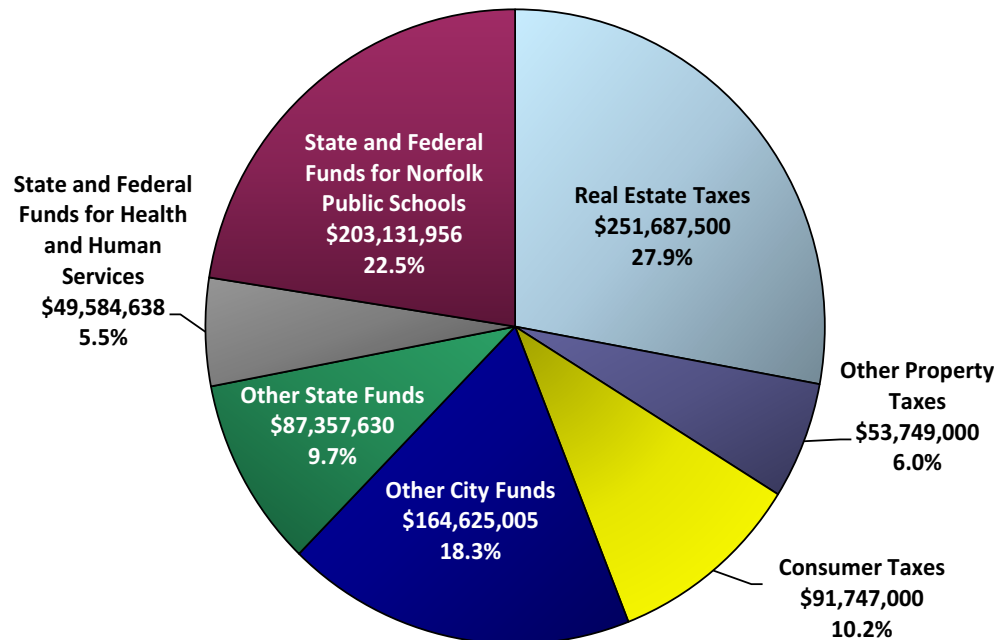
GENERAL FUND BUDGET OVERVIEW

Adopted FY 2020 General Fund Revenues \$901,882,729

Funding for Norfolk comes from a variety of sources as shown at right.

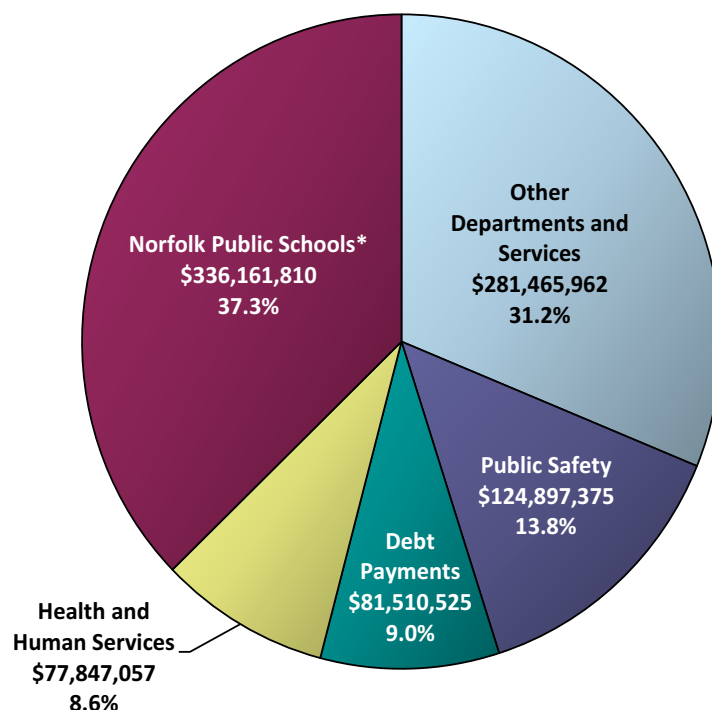
"Other City Funds" include local taxes, fees, charges, fines, rent and interest.

"Consumer Taxes" include sales, hotel, meals, admissions and cigarette taxes.



Adopted FY 2020 General Fund Expenditures \$901,882,729

In the FY 2020 budget, "Other Departments and Services" include public works, transit, libraries, Slover library, recreation, cultural facilities, zoo, Nauticus, planning, neighborhood development, economic development, finance, human resources, information technology, general services, legislative, executive, law, judicial, constitutional officers, outside agencies, and central appropriations.



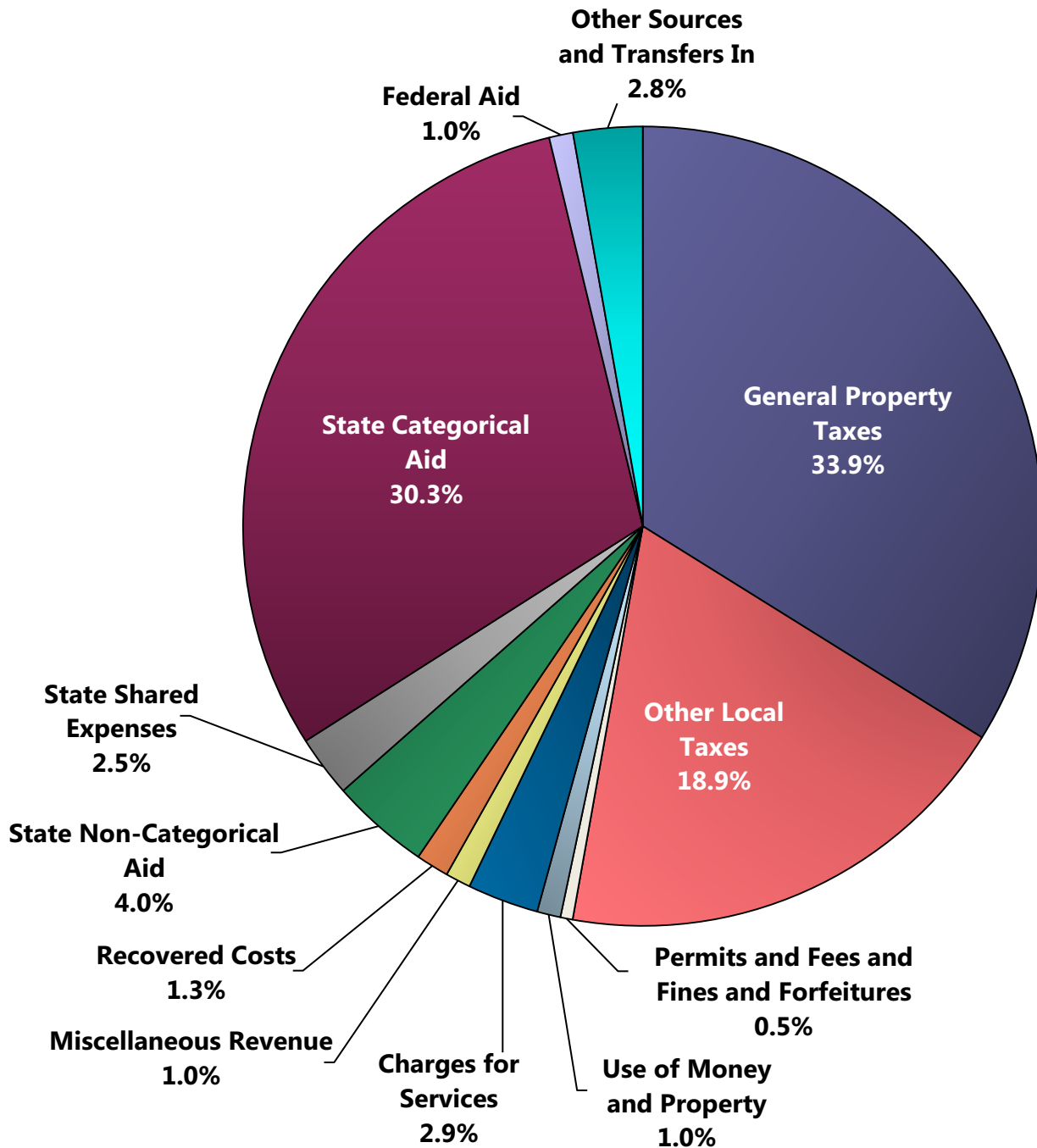
Note: Percentages may not total to 100 due to rounding. *Does not include in-kind support.

ESTIMATED GENERAL FUND REVENUES BY SOURCE

The following table compares the Adopted FY 2020 General Fund Operating Budget to the Adopted FY 2019 General Fund Operating Budget and the FY 2018 Actual amount. Funding sources are shown by category to provide an overview of the principal sources of revenue for the general operating fund of the city. These revenue sources support general government operations. The tables and charts in the pages that follow show revenues and expenditures for all funds.

Source	FY 2018 Actual	FY 2019 Adopted	FY 2020 Adopted	FY 2019 vs. FY 2020	
				\$ Change	% Change
General Property Taxes	272,292,964	296,531,400	305,436,500	8,905,100	3.0%
Other Local Taxes	163,653,946	169,805,000	170,844,800	1,039,800	0.6%
Permits and Fees	3,298,466	3,836,785	3,387,500	-449,285	-11.7%
Fines and Forfeitures	1,067,796	1,185,000	1,094,000	-91,000	-7.7%
Use of Money and Property	7,674,264	7,421,420	8,588,191	1,166,771	15.7%
Charges for Services	23,409,703	26,591,119	25,990,999	-600,120	-2.3%
Miscellaneous Revenue	24,575,418	8,952,217	9,219,102	266,885	3.0%
Recovered Costs	11,800,436	11,695,852	12,005,487	309,635	2.6%
Non-Categorical Aid - State	35,048,144	35,485,900	36,036,200	550,300	1.6%
Shared Expenses - State	21,663,467	21,371,000	22,384,860	1,013,860	4.7%
Categorical Aid - State	261,736,804	267,804,580	272,947,989	5,143,409	1.9%
Federal Aid	8,199,890	8,871,490	8,709,175	-162,315	-1.8%
Other Sources and Transfers In	33,853,463	21,236,663	25,237,926	4,001,263	18.8%
General Fund Total	868,274,761	880,788,426	901,882,729	21,094,303	2.4%

Adopted FY 2020 General Fund Revenues by Source



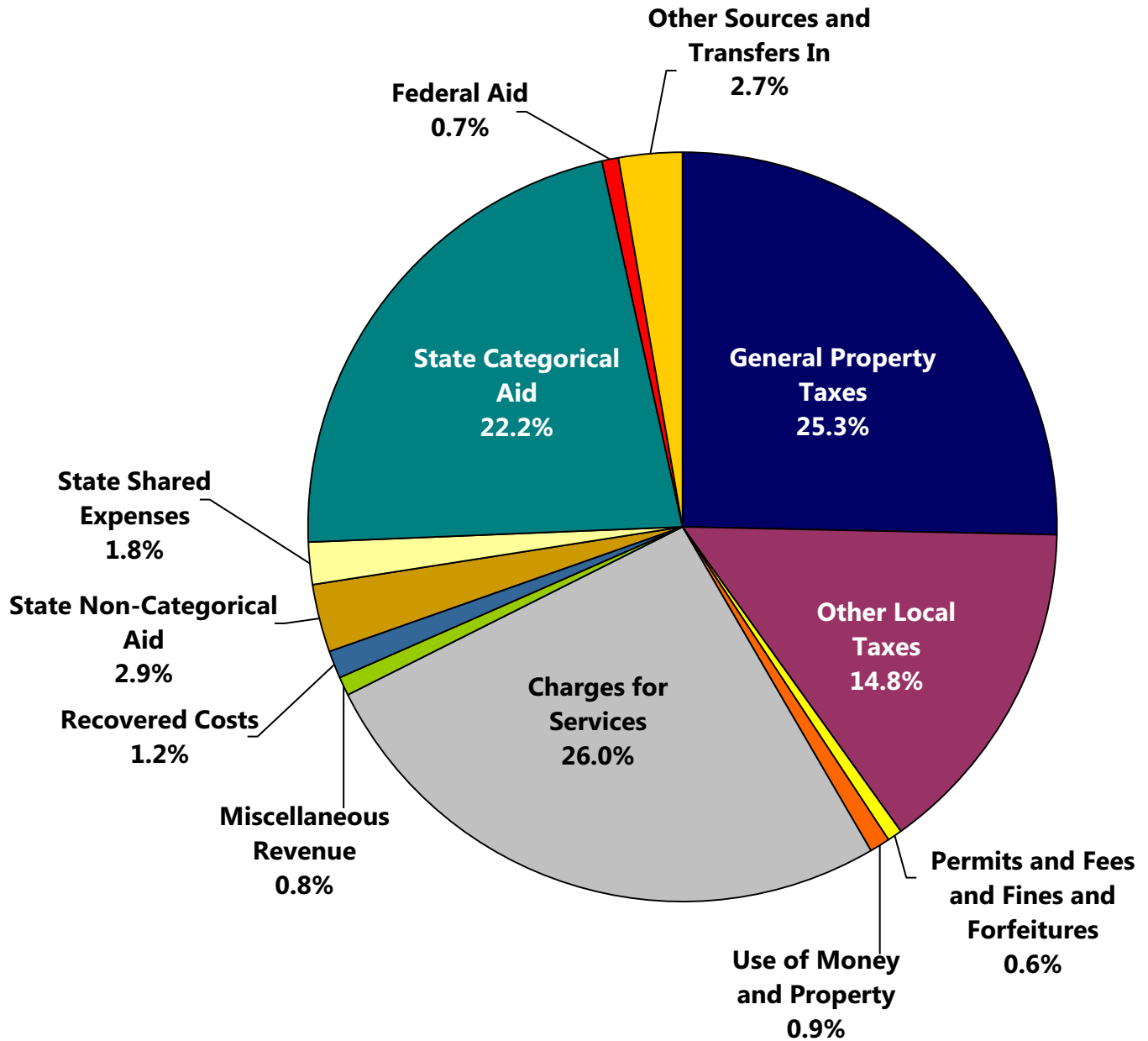
Note: Percentages may not total to 100 due to rounding.

ESTIMATED REVENUES BY SOURCE (ALL FUNDS)

The following table compares the Adopted FY 2020 Operating Budget to the Adopted FY 2019 Operating Budget and the FY 2018 Actual amount. Funding sources by category are shown to provide an overview of the sources of revenue for the general and nongeneral operating funds of the city. Revenues are reflected in those categories where they are originally raised.

Source	FY 2018 Actual	FY 2019 Adopted	FY 2020 Adopted	FY 2019 vs. FY 2020	
				\$ Change	% Change
General Property Taxes	272,292,964	302,386,400	311,704,500	9,318,100	3.1%
Other Local Taxes	174,138,868	180,279,596	181,623,396	1,343,800	0.7%
Permits and Fees	4,273,718	4,501,285	4,255,280	-246,005	-5.5%
Fines and Forfeitures	3,512,078	2,947,000	3,540,660	593,660	20.1%
Use of Money and Property	8,992,569	8,881,050	10,790,821	1,909,771	21.5%
Charges for Services	210,993,481	307,908,109	319,856,434	11,948,325	3.9%
Miscellaneous Revenue	25,109,086	9,725,451	9,967,340	241,889	2.5%
Recovered Costs	15,565,473	14,870,868	14,678,415	-192,453	-1.3%
Non-Categorical Aid - State	35,048,144	35,485,900	36,036,200	550,300	1.6%
Shared Expenses - State	21,663,467	21,371,000	22,384,860	1,013,860	4.7%
Categorical Aid - State	261,736,804	267,885,580	273,047,989	5,162,409	1.9%
Federal Aid	8,762,869	8,871,490	8,822,792	-48,698	-0.5%
Other Sources and Transfers In	37,138,707	25,589,464	33,708,881	8,119,417	31.7%
Total All Funds	1,079,228,228	1,190,703,193	1,230,417,568	39,714,375	3.3%

Adopted FY 2020 Revenues by Source (All Funds)



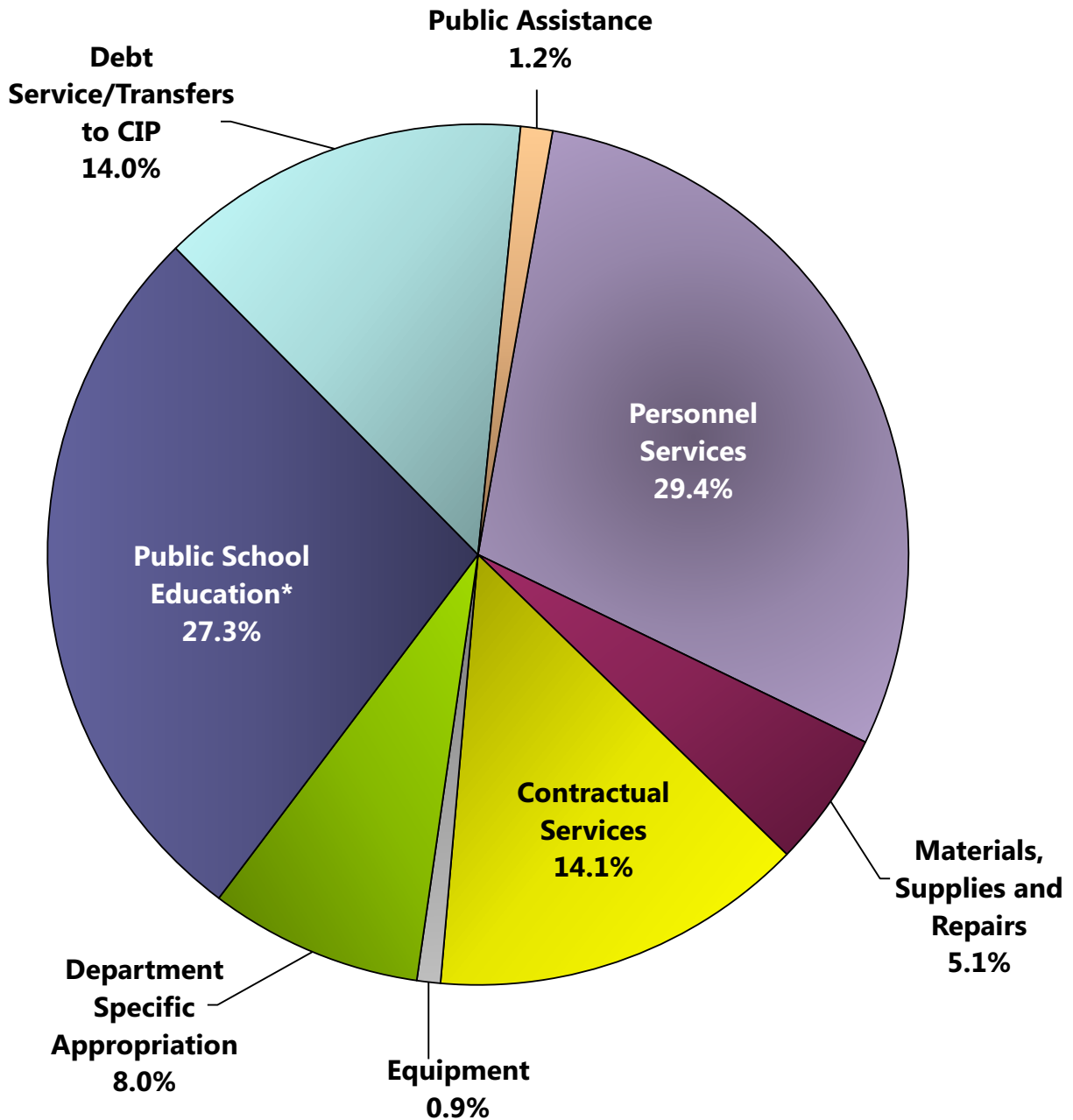
Note: Percentages may not total to 100 due to rounding.

ESTIMATED EXPENDITURES BY USE (ALL FUNDS)

The following table compares the Adopted FY 2020 Operating Budget to the Adopted FY 2019 Operating Budget and the FY 2018 Actual amount. Funding uses by category are shown to provide an overview of the principal uses of expenditures for the general and nongeneral operating funds of the city. Expenditures are reflected in those categories where they are originally spent.

Uses	FY 2018 Actual	FY 2019 Adopted	FY 2020 Adopted	FY 2019 vs. FY 2020	
				\$ Change	% Change
Personnel Services	333,815,917	356,305,489	361,744,153	5,438,664	1.5%
Materials, Supplies and Repairs	61,551,206	63,550,593	62,595,890	-954,703	-1.5%
Contractual Services	190,791,327	169,555,688	173,899,227	4,343,539	2.6%
Equipment	7,215,012	10,700,939	10,883,313	182,374	1.7%
Department Specific Appropriation	46,786,271	102,830,190	98,457,698	-4,372,492	-4.3%
Public School Education	317,505,301	328,355,950	336,161,810	7,805,860	2.4%
Debt Service/Transfers to CIP	107,173,250	144,748,449	171,962,192	27,213,743	18.8%
Public Assistance	12,877,792	14,655,895	14,713,285	57,390	0.4%
Total All Funds	1,077,716,076	1,190,703,193	1,230,417,568	39,714,375	3.3%

Adopted FY 2020 Expenditures by Use (All Funds)



Note: Percentages may not total to 100 due to rounding.

*Does not include "in-kind" support. See Public School Education section.

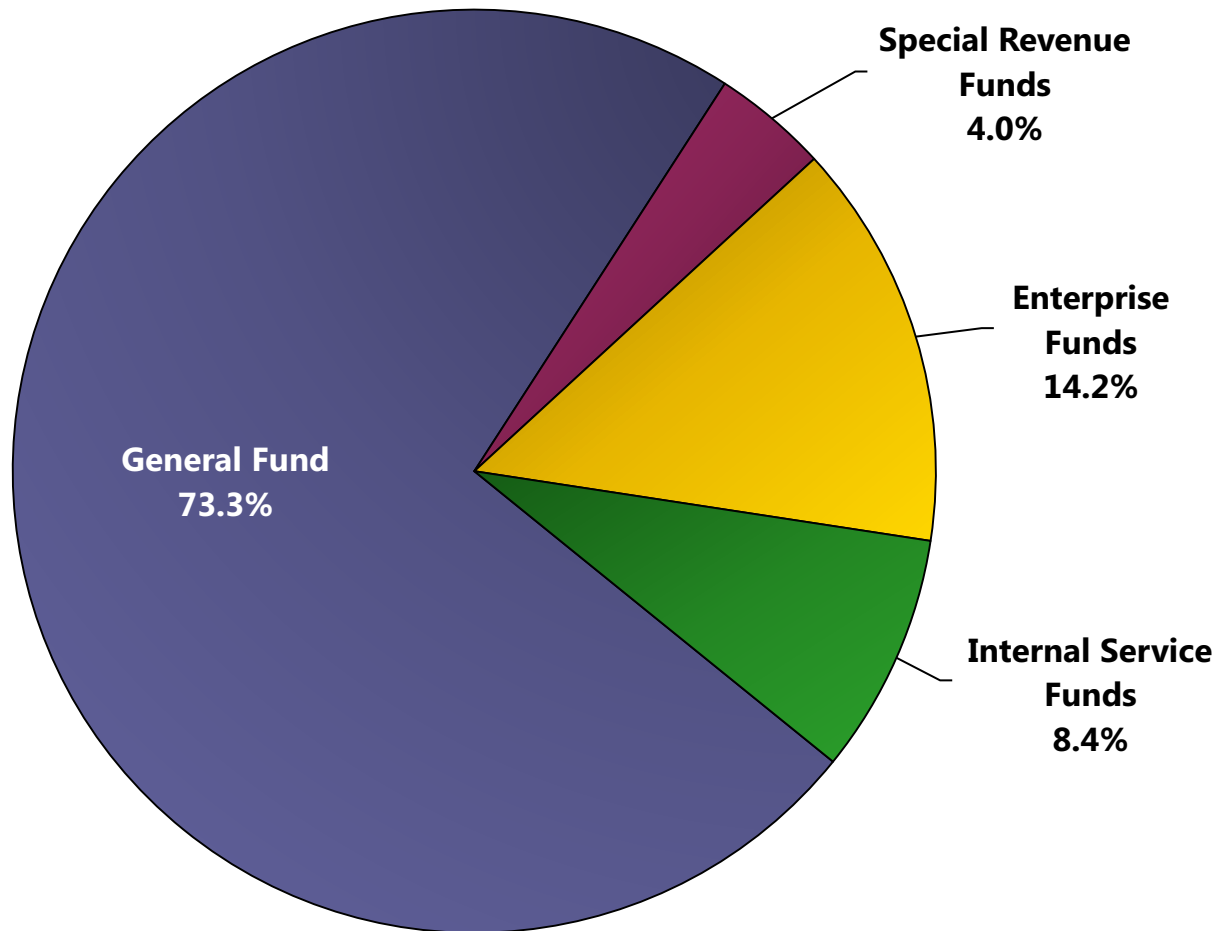
ESTIMATED EXPENDITURES BY FUND TYPE

The following table compares expenditures by fund type in the Adopted FY 2020 Operating Budget to the Adopted FY 2019 Operating Budget and the FY 2018 Actual amount.

Fund Type	FY 2018 Actual	FY 2019 Adopted	FY 2020 Adopted	FY 2019 vs. FY 2020	
				\$ Change	% Change
General Fund	841,032,909	880,788,426	901,882,729	21,094,303	2.4%
Special Revenue Funds ¹	61,721,067	60,312,685	49,685,256	-10,627,429	-17.6%
Enterprise Funds ¹	81,130,646	145,660,878	175,256,465	29,595,587	20.3%
Internal Service Funds	93,831,454	103,941,204	103,593,118	-348,086	-0.3%
Total All Funds	1,077,716,076	1,190,703,193	1,230,417,568	39,714,375	3.3%

¹ The decrease in Special Revenue Funds in FY 2020 from FY 2019 is due to the classification of the Storm Water Management Fund as an Enterprise Fund beginning in FY 2020. There is a corresponding increase in Enterprise Funds.

Adopted FY 2020 Expenditures by Fund Type (All Funds)



Note: Percentages may not total to 100 due to rounding.

ESTIMATED GENERAL FUND EXPENDITURES BY AREA

The following table compares the Adopted FY 2020 General Fund Operating Budget to the Adopted FY 2019 General Fund Operating Budget and the FY 2018 Actual amount. Major areas of service are shown to provide a broad overview of the expenditures for the general operating fund of the city.

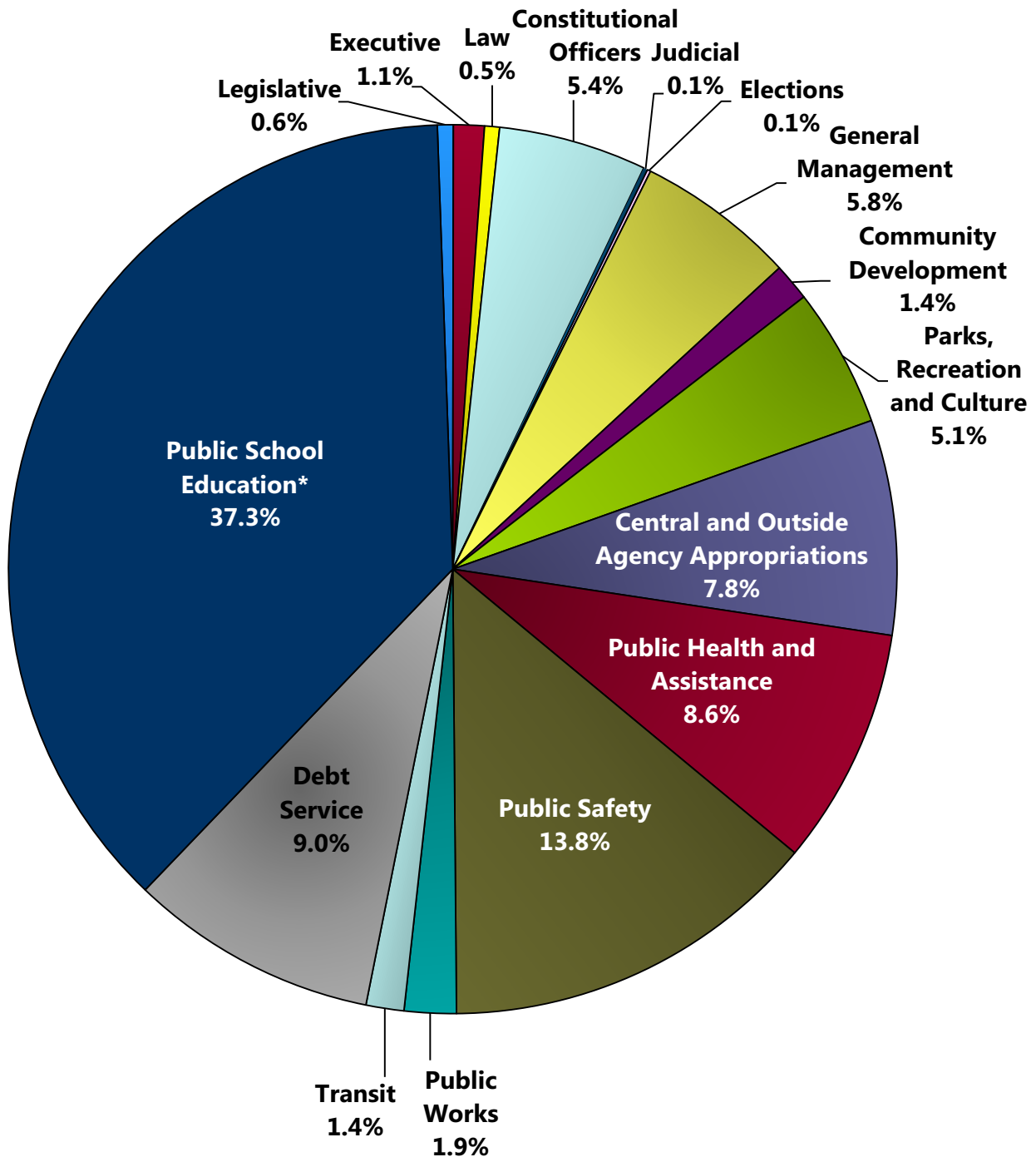
Service Area	FY 2018 Actual	FY 2019 Adopted	FY 2020 Adopted	FY 2019 vs. FY 2020	
				\$ Change	% Change
Legislative	4,726,285	5,277,578	5,215,803	-61,775	-1.2%
Executive ¹	5,948,468	6,211,184	10,104,392	3,893,208	62.7%
Department of Law	4,686,065	4,828,532	4,905,409	76,877	1.6%
Constitutional Officers	53,599,190	48,529,865	48,577,771	47,906	0.1%
Judicial	1,251,938	1,393,416	1,341,955	-51,461	-3.7%
Elections	865,304	993,471	1,110,962	117,491	11.8%
General Management	44,790,956	52,174,881	52,318,219	143,338	0.3%
Community Development	11,008,418	11,775,386	12,270,576	495,190	4.2%
Parks, Recreation and Culture	44,118,423	45,517,497	45,691,583	174,086	0.4%
Central and Outside Agency Appropriations ¹	59,712,253	77,110,296	70,466,391	-6,643,905	-8.6%
Public Health and Assistance	73,955,454	77,345,454	77,847,057	501,603	0.6%
Public Safety	115,550,664	121,884,798	124,897,375	3,012,577	2.5%
Public Works ²	26,364,497	27,896,256	17,021,849	-10,874,407	-39.0%
Transit ³	0	0	12,441,052	12,441,052	N/A
Debt Service	76,949,693	71,493,862	81,510,525	10,016,663	14.0%
Public School Education	317,505,301	328,355,950	336,161,810	7,805,860	2.4%
General Fund Total	841,032,909	880,788,426	901,882,729	21,094,303	2.4%

¹ The increase in Executive in FY 2020 is due to establishing St. Paul's Area Transformation as a division of the Office of Resilience. There is a corresponding decrease in Central Appropriations where St. Paul's Area Transformation is budgeted in FY 2019.

² The decrease in Public Works in FY 2020 is due to the transfer of the Division of Transportation and the Division of Right of Way from Public Works to the newly created Department of Transit. There is a corresponding increase in Transit.

³ Funding in FY 2019 is budgeted in Public Works.

Adopted FY 2020 General Fund Expenditures by Area



Note: Percentages may not total to 100 due to rounding.

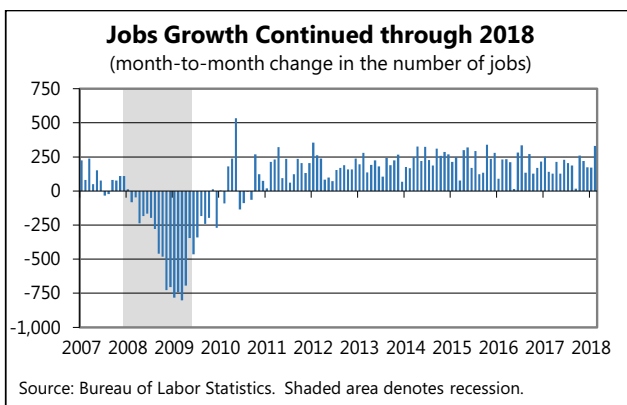
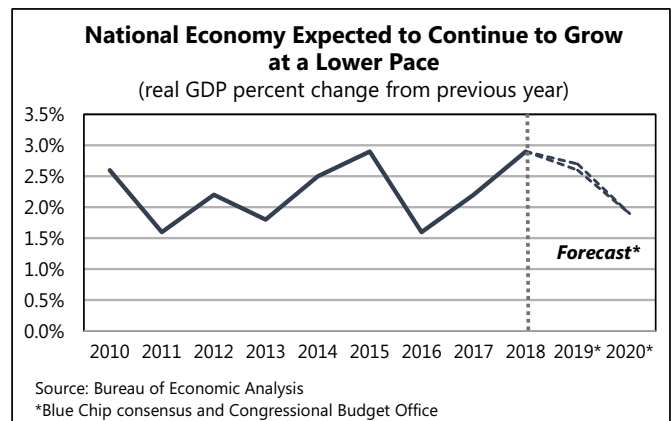
*Does not include "in-kind" support. See Public School Education section.

MAJOR REVENUE SOURCES

Evaluating the city's current and long-term financial health requires a review of the economy and major revenue sources. Overall, General Fund revenues are projected to rise 2.4 percent in FY 2020. The growth citywide is 3.3 percent. Real estate assessments, which drives the largest locally generated General Fund revenue source (real estate taxes), are projected to grow 3.7 percent in FY 2020, which is above the growth of 2.7 percent in FY 2019 and 2.4 percent in FY 2018.

ECONOMIC OVERVIEW

The national economy continued to expand through calendar year 2018. Real gross domestic product (GDP), which is the broadest measure of economic activity, grew 2.9 percent (first estimate), which was above the growth rates in the past two years of 2.2 percent (2017) and 1.6 percent (2016). The growth was largely driven by higher growth in consumer spending and business investment in 2018. Consumer spending on goods and services both rose in 2018 as well as, investment in structures, equipment, intellectual property, and inventory. Federal, state, and local government spending also contributed to the growth in real GDP, while residential investment and net exports offset the growth. With the economy's growth through 2018, the current expansion has lasted for 114 months, from June 2009 to December 2018, and is the second longest expansion on record. The longest expansion lasted 120 months from March 1991 to March 2001. The national economy is expected to continue to grow in calendar years 2019 and 2020 but at a declining rate from 2018.



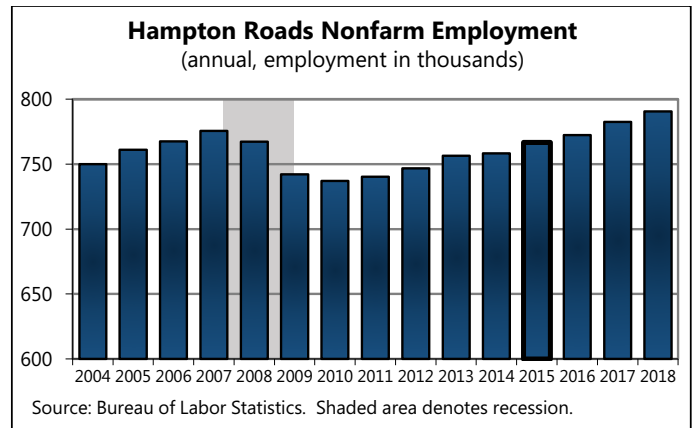
Nonfarm employment continued to grow in 2018 for the ninth year in a row. The economy gained nearly 2.7 million jobs (revised), an average of approximately 223,000 jobs per month and the most added since 2015. With job growth, the annual unemployment rate fell to 3.9 percent in 2018 from 4.4 percent in 2017, the lowest annual unemployment rate since 1969. During 2018, job growth occurred in both the private and public sector. Within the private sector, the number of jobs grew in most major industries, except in utilities which lost jobs. The public sector job growth also occurred at the federal, state, and local level. Projections from the Blue Chip consensus forecast and the Congressional

Budget Office indicate the unemployment rate falling slightly in 2019 but gradually rising in the years thereafter and employment continuing to grow at a decreasing rate.

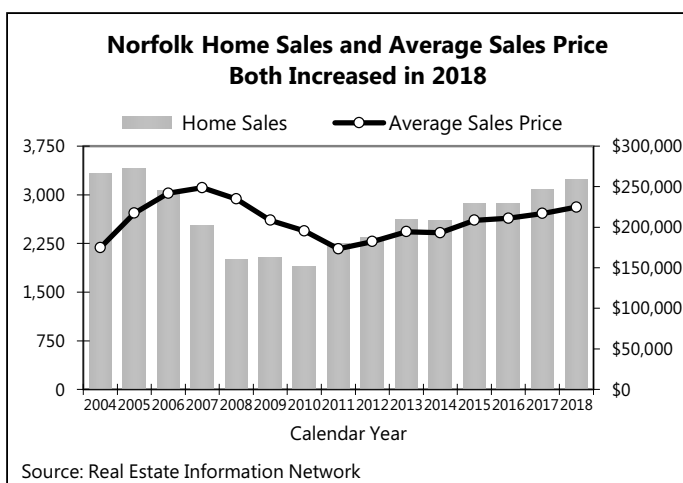
Virginia's annual nonfarm employment rose 1.1 percent (44,800 jobs) to 4,000,600 in 2018 for the eighth consecutive year. The largest job gains in 2018 were in professional and business services (18,500 jobs). Other industries seeing job growth in 2018 include education and health services, manufacturing, leisure and hospitality, construction, finance, government (federal, state, and local), and transportation and utilities. Job losses occurred in retail and wholesale trade, information, and mining. Employment rose in all the Virginia metropolitan statistical areas (MSA), and the job growth ranged from 0.6 percent (Roanoke MSA) to 1.8 percent (Northern Virginia MSA). In 2019, Virginia nonfarm employment (seasonally adjusted) continued to rise month-to-month and year-over-year in

January 2019 by 0.6 percent and 1.1 percent, respectively. The Virginia MSAs generally followed the same trend, except Staunton-Waynesboro MSA where nonfarm employment (seasonally adjusted) was the same level as in the previous month.

Hampton Roads' annual nonfarm employment rose 1.0 percent (7,900 jobs) in 2018 to 790,500. The region's job growth in 2017 was also revised upward to 1.3 percent (10,700 jobs) from the previous estimated growth of 0.9 percent (7,300 jobs). Like Virginia, the largest job gains during 2018 were in professional and business services (4,800 jobs). Job growth also occurred in manufacturing, education and health services, finance, construction, and leisure and hospitality. The largest job losses were in trade, transportation, and utilities (2,600 jobs), which occurred mostly in retail trade (2,100 jobs). Areas that lost jobs in 2018 include information and government (mainly in state and local government). The regional economists at the Hampton Roads Planning District Commission (HRPDC) and Old Dominion University (ODU) are projecting employment in Hampton Roads to continue to grow in 2019 at 1.2 percent and 0.9 percent, respectively.



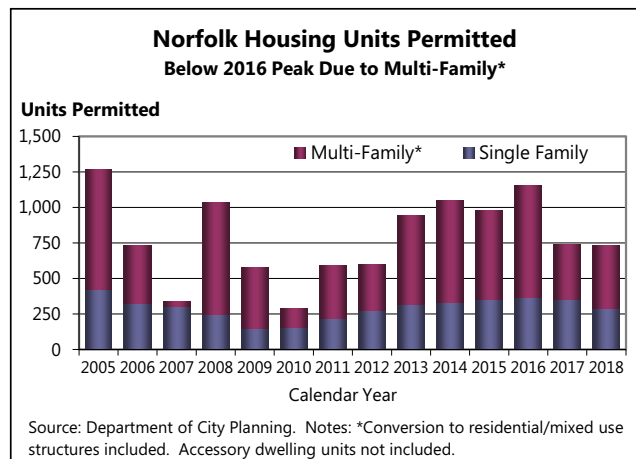
Virginia's performance in FY 2018 was above expectations. The Commonwealth's General Fund resources (which includes transfers) exceeded the FY 2018 forecast by \$555.5 million. Virginia employment, personal income, and wage and salary growth were above expectations as well in FY 2018. Actual payroll employment grew 1.4 percent, above the projected 1.3 percent growth. Personal income and wages and salaries grew 4.1 percent and 4.0 percent, respectively, above the projected growth of 3.3 percent and 3.6 percent. The December forecast presented with the Governor's Proposed Amendments to the 2018-2020 Biennial Budget indicated Virginia personal income and wages and salaries continuing to grow over the 2018-2020 biennium and will be at or above its growth in FY 2018. Virginia employment will also continue to grow over the 2018-2020 biennium, although the growth is projected to slow by the end of the biennium. Virginia's fiscal stability is important to Norfolk, since nearly 37 percent of General Fund resources come from the Commonwealth. These state resources support Norfolk Public Schools, social services, street maintenance, public safety, and other basic services. The FY 2020 estimate of Norfolk's revenues from the Commonwealth was based upon the budget amendments agreed to by the House and Senate conferees (Conference Report).



In addition to state aid, Norfolk is dependent upon real estate taxes to fund its general operations. Like other localities, real estate taxes are the city's largest source of locally generated revenue. In FY 2020, the Real Estate Assessor's Office is estimating a 3.72 percent increase in overall real estate assessments on July 1, 2019 from the land book value on July 1, 2018. This would be the seventh consecutive year of growth and the largest since FY 2009. The estimate is based upon the 2018 third quarter data. Residential assessments are also anticipated to increase in FY 2020 by 3.8 percent as the local housing market continues to improve. In calendar year 2018, the average sales price of homes sold in Norfolk rose 3.6 percent, while the median sales price rose 2.3 percent. Home sales were also up 5.3 percent in

2018. However, despite the projected 3.8 percent growth of residential assessments in FY 2020, the assessed value of residential properties in the city would continue to be below its last peak reached in FY 2010. The assessed value of commercial properties and apartments are also projected to increase in FY 2020 by approximately 4.5 percent and 4.6 percent, respectively.

While the local housing market continues to recover, new housing units permitted in the past two years were below the peak reached in 2016. The number of housing units permitted in 2017 and 2018 fell back to the pre-2013 level. The decline from 2018 was largely from multi-family housing projects and housing units permitted in commercial structures being converted to residential. New construction permitted throughout the city should support future growth in real estate assessments.



Nonresidential (or “commercial”) projects permitted in 2018 included renovation of existing structures and new building construction. Commercial projects permitted in 2018 include the Sentara Cancer Center, EVMS Education and Academic Administration Building, Glass Light Hotel (Royster Building renovation), and various projects by Sentara, Norfolk Outlet Mall, CHKD, and Norfolk Airport. It is important to note that Norfolk is built out, and the building activity occurring currently is mainly redevelopment, infill development, and vertical expansion.

GENERAL FUND REVENUE OVERVIEW

The city generates revenue through taxes, user charges, and intergovernmental transfers from the state and federal government. Over half of the city’s General Fund revenues are generated locally from various taxes and fees including real estate, personal property, retail sales, permits, fines, and user charges. These sources fund services such as police, fire, parks and recreation, libraries, street maintenance, K-12 education, and human services.

The Commonwealth of Virginia provides nearly 37 percent of General Fund revenues. It is the largest revenue source in the General Fund and consists of funding largely for dedicated purposes such as education, social services, transportation, and constitutional officers. HB 599 funds for law enforcement, the city’s share of personal property tax relief funds, and the tax on rental of cars also make up revenue from the Commonwealth. As a result of the Great Recession, the Commonwealth saw a significant decline in revenues and in turn, reduced Direct Aid to education, HB 599, Constitutional Officers salaries and benefits funding, jail per diem, and funds for street maintenance, imposed a “flexible cut” to state aid to localities, and eliminated the local share of ABC profits and wine tax. Not all revenues from the Commonwealth have returned to pre-recession levels even though the Commonwealth’s General Fund revenues have been above its last pre-recession peak since FY 2012.

The remaining revenue comes from the federal government (mostly dedicated to Norfolk Public Schools and the Norfolk Community Services Board), recovered costs, interfund transfers, and carryforward of prior year savings. Interfund transfers represent a return on investment from Waste Management and Utilities (water and wastewater) operations. It also includes Public Amenities funding to support the Norfolk Consortium and excess revenues from the Tax Increment Financing Fund. Carryforward funds are generated through a combination of projected current year savings, realized savings from prior years, and account closeouts. Carryforward funds may also include the re-appropriation of prior year unspent designated funds.

Preliminary General Fund revenue projections, based on historical data and current economic data, were presented during the City Manager’s financial and budget updates at the City Council financial update in the fall (October 2018) and the mid-year City Council Retreat (February 2019). Projections were updated through early March to incorporate the current information available including state budget estimates and Norfolk Public Schools proposed budget. Revenue estimates were based on the analysis of the collection history and patterns, underlying drivers that impact a revenue source, information from departments that collect revenue, overall economic environment, and developments projected for the city in the coming year. Revenue amounts shown in the following discussion include the FY 2019 budget, FY 2019 end of year estimate, and FY 2020 budget.

The FY 2020 General Fund budget is approximately \$901.9 million, which is 2.4 percent (\$21.1 million) above the Adopted FY 2019 Budget.

General Fund Revenue Summary

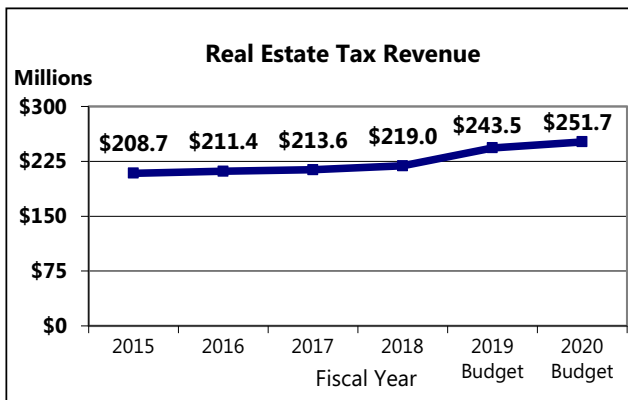
Source	FY 2018 Actual	FY 2019 Adopted	FY 2020 Adopted	FY 2019 vs. FY 2020 \$ Change	FY 2020 % Change	FY 2020 % of Total
General Property Taxes	272,292,964	296,531,400	305,436,500	8,905,100	3.0%	33.9%
Other Local Taxes	163,653,946	169,805,000	170,844,800	1,039,800	0.6%	18.9%
Permits and Fees	3,298,466	3,836,785	3,387,500	-449,285	-11.7%	0.4%
Fines and Forfeitures	1,067,796	1,185,000	1,094,000	-91,000	-7.7%	0.1%
Use of Money and Property	7,674,264	7,421,420	8,588,191	1,166,771	15.7%	1.0%
Charges for Services	23,409,703	26,591,119	25,990,999	-600,120	-2.3%	2.9%
Miscellaneous Revenue	24,575,418	8,952,217	9,219,102	266,885	3.0%	1.0%
Recovered Costs	11,800,436	11,695,852	12,005,487	309,635	2.6%	1.3%
Non-Categorical Aid - State	35,048,144	35,485,900	36,036,200	550,300	1.6%	4.0%
Shared Expenses - State	21,663,467	21,371,000	22,384,860	1,013,860	4.7%	2.5%
Categorical Aid - State	261,736,804	267,804,580	272,947,989	5,143,409	1.9%	30.3%
Federal Aid	8,199,890	8,871,490	8,709,175	-162,315	-1.8%	1.0%
Other Sources and Transfers In	33,853,463	21,236,663	25,237,926	4,001,263	18.8%	2.8%
General Fund Total	868,274,761	880,788,426	901,882,729	21,094,303	2.4%	100.0%

Note: Percentages may not total to 100 due to rounding. The FY 2020 Adopted amount reflects the budgetary impact of the recreational boat tax and license restructuring adopted by City Council on June 25, 2019. See the following sections on General Property Taxes and Other Local Taxes for detail.

REVENUE MONITORING

Collection of the city's revenue sources are monitored throughout the year. Financial reports are monitored monthly and quarterly to determine the accuracy of budget projections. This allows for appropriate administrative action if actual results differ substantially from projections. A detailed analysis is completed to project future revenue collections taking into account revenue drivers, information from departments that administer revenues, seasonal fluctuations, and economic conditions. Strong collection rates for locally generated taxes and fees reflect Norfolk residents' commitment and fulfillment of responsibility to the city.

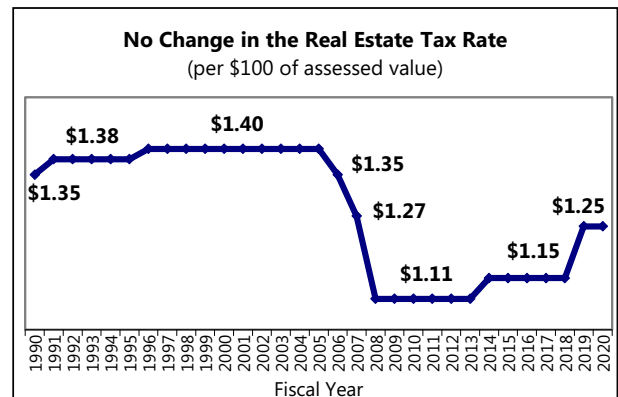
GENERAL PROPERTY TAXES



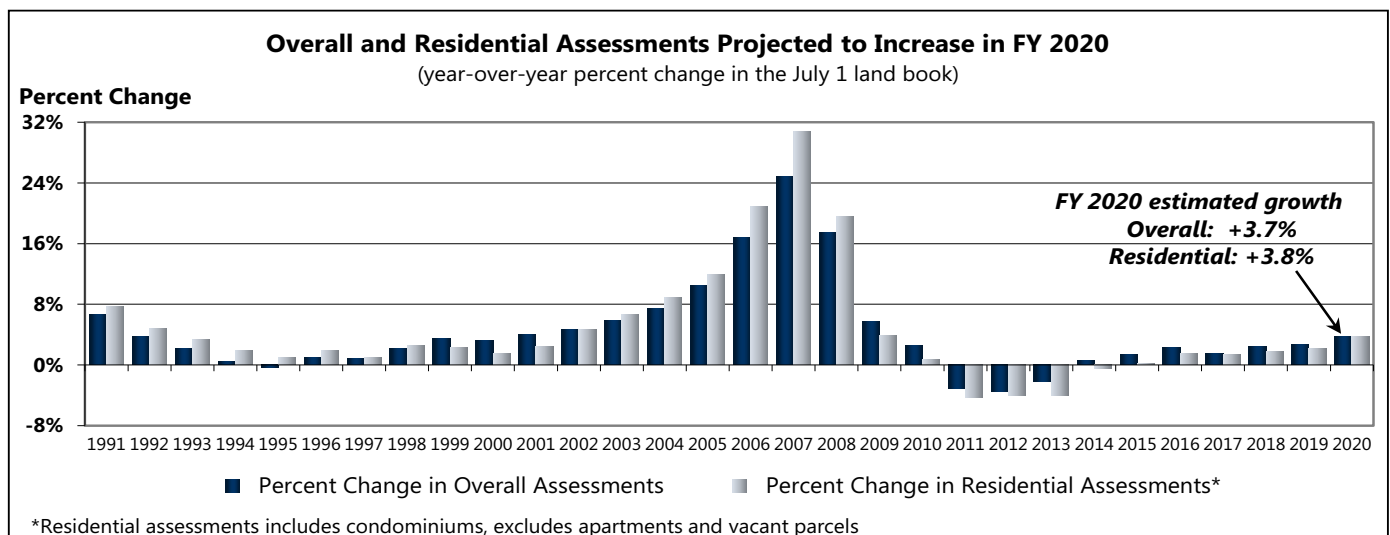
General property taxes are levied on the assessed value of real estate and personal property including machinery and tools. These taxes make up approximately 34 percent (\$305 million) of the city's FY 2020 General Fund revenues. Real estate tax revenue is the largest component of general property taxes (approximately \$252 million or 28 percent of General Fund revenues). Real estate taxes include current and delinquent taxes as well as, the tax on public service corporations and on real estate located within the Downtown Improvement District (DID). The budget reflects extending the DID tax of 16 cents per \$100 of assessed value on the current DID boundary that is set to expire on June 30, 2019.

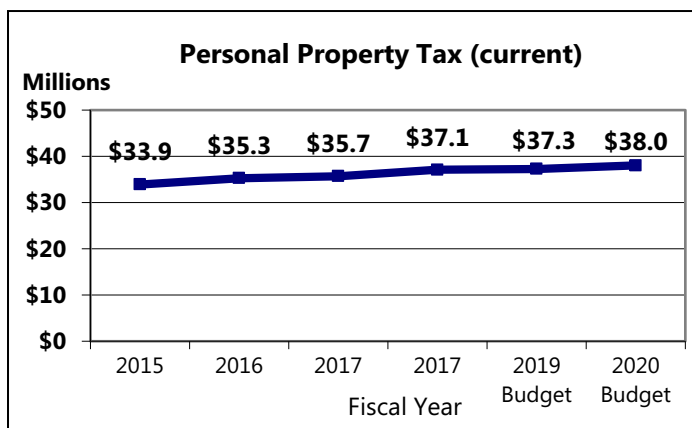
Current real estate taxes (the largest component of real estate tax revenue) make up approximately \$234 million or 26 percent of General Fund revenues. The estimate reflects the real estate tax rate of \$1.25 per \$100 of assessed value and continuing to set aside \$5.0 million for real estate tax relief to qualifying senior and disabled homeowners and to state mandated disabled veterans and surviving spouses of military personnel killed in action.

The current real estate tax revenue estimate also takes into account the Office of the Real Estate Assessor's estimate of overall assessments on the taxable land book on July 1, 2019. The most recent update indicated overall assessments projecting to be approximately 3.72 percent above the land book value on July 1, 2018. The growth follows six consecutive years of growth and is the largest growth since FY 2009. Residential property, which makes up approximately 64 percent of taxable assessed value and 85 percent of taxable parcels in the city, is projected to increase by 3.8 percent. In spite of that growth, the assessed value of residential properties would continue to be below its last peak in FY 2010.



Among other property classifications, the assessed value of commercial properties and apartments are projected to increase by approximately 4.5 percent and 4.6 percent, respectively. It is important to note that due to the significant number of property owned by the federal, state, and local government, and religious and secular organizations in the city, approximately 37 percent of the city's real estate assessed value is tax exempt, which is equivalent to a potential revenue loss of \$140 million based upon the FY 2019 assessed value and current tax rate.





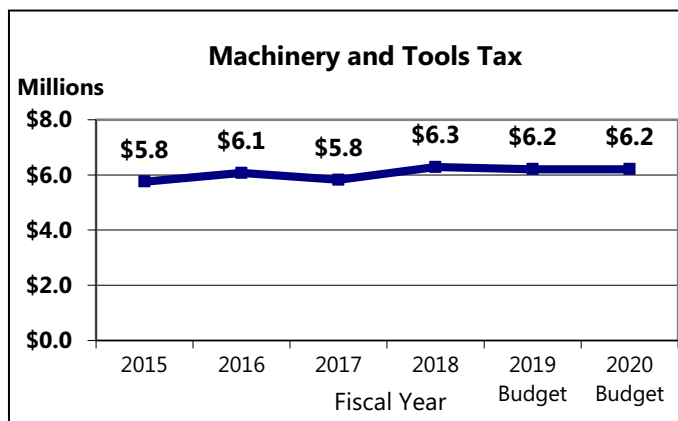
The second largest component of general property taxes is the personal property tax, which is levied on tangible personal property, including motor vehicles, boats, aircraft, business furnishings, and office equipment. Household goods and personal effects are exempt from taxation. In FY 2020, personal property tax (current) makes up 4.2 percent (\$38.0 million) of General Fund revenues and is estimated to be \$0.7 million or 2.0 percent above the FY 2019 budget and FY 2019 year-end estimate with improved collections and growth from economic developments in the city. Personal property taxes in total also include delinquent collections, refunds, and taxes from public service

corporations. These comprise 5.3 percent (\$47.6 million) of General Fund revenues and are estimated to be approximately \$0.7 million or 1.6 percent above the FY 2019 budget and FY 2019 year-end estimate. Following the adoption of the FY 2020 budget in May, the City Council approved lowering the personal property tax on recreational boats to \$0.25 per \$100 of assessed value from \$0.50 per \$100 of assessed value with the intent of eliminating the tax in the next fiscal year on June 25, 2019. The revenue loss from lowering the recreational boat tax is estimated to be approximately \$116,500. The FY 2020 adopted amount presented in the budget document reflects that decrease in the personal property tax on recreational boats.

The FY 2020 budget assumes no change in the general tax rate on personal property at \$4.33 per \$100 of assessed value. The estimate also assumes the state car tax relief is unchanged at 55 percent (55%) rate for FY 2019 (tax bills due June 5, 2019). The 55 percent relief rate is anticipated to fully exhaust relief funds provided to the city by the Commonwealth of Virginia under the Personal Property Tax Relief Act. This means that qualifying vehicles with an assessed value of more than \$1,000 will receive a **55 percent (55%) rate** of tax relief on the vehicle's first \$20,000 of assessed value. Qualifying vehicles with an assessed value of \$1,000 or less will receive 100 percent (100%) rate of tax relief. Prior to FY 2006, qualifying vehicles with an assessed value of more than \$1,000 were reimbursed for 70 percent of the total property tax eligible for relief. State legislation passed in 2004 capped car tax relief funds statewide at \$950 million beginning in FY 2006. Consequently, each locality in the state now receives a fixed share of the \$950 million of statewide personal property tax relief funds per state code. Each locality's share was determined based on the proportional share of actual personal property tax relief payments received in tax year 2005, as certified by the Commonwealth of Virginia Auditor of Public Accounts, of which, Norfolk's share is \$16,871,056. Personal property tax relief funds received and not used in FY 2019 shall be carried forward and used to increase the funds available for car tax relief. With the state capping the amount of funds available for car tax relief, the percentage of the state reimbursement compared to the total tax is expected to decrease over time and residents will pay an increasing share of the car tax.

The machinery and tools tax is the third largest component of general property taxes and makes up approximately 0.7 percent (\$6.2 million) of General Fund revenues. The tax is levied on machinery and tools used in manufacturing, mining, radio and television broadcasting, cable television, dry cleaning or laundry businesses at a rate of \$4.25 per \$100 of assessed value, eight cents below the general personal property tax rate of \$4.33 per \$100 of assessed value.

Revenue from this source is expected to remain stable. However, there have been attempts through state legislation to curtail or eliminate entirely the ability of localities to generate revenue from this source. During the 2019 session of the General Assembly, there was a failed state budget amendment to examine a proposal that would allow the state to require all localities to assess a "zero"



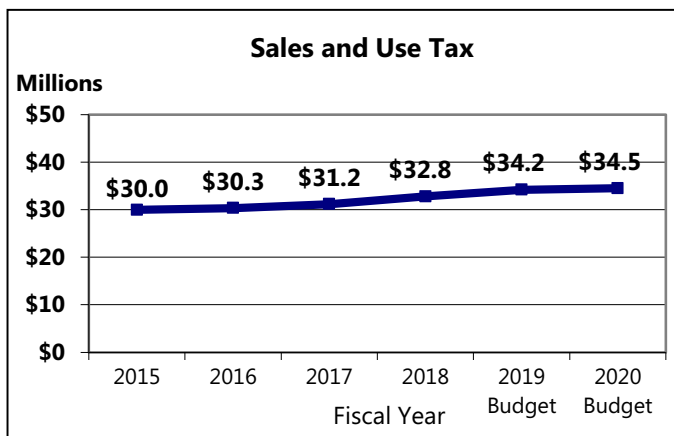
rate on a manufacturer's machinery and tools for the first five years the equipment is put into service. The proposal would have recommended state revenue sources to reimburse local governments (up to \$50 million annually statewide) for the forgone local revenues such as, the new sales and use tax revenues derived from requiring remote sellers to collect sales tax.

OTHER LOCAL TAXES

Other local taxes are comprised of consumer and business-based taxes, including excise taxes on utilities (water, gas, electricity, and communications), sales, hotel, restaurant/meals, admissions, and cigarettes, as well as franchise, business license, and recordation taxes. The revenue category is particularly sensitive to changes in economic conditions. Other local taxes are projected to comprise approximately 19 percent (\$171 million) of General Fund revenues in FY 2020.

Citywide, other local taxes total approximately \$182 million in the operating budget, which include the Public Amenities Fund portion of the hotel and food and beverage taxes (\$7.2 million) and the Emergency Preparedness and Response portion of the telecommunications sales and use tax (\$3.6 million). Following the adoption of the FY 2020 budget in May, the City Council approved raising the recreational boat license on boats under 16 feet in length to \$15.00 from \$10.00, and for boats 16 feet and over in length to \$40.00 from \$25.00 on June 25, 2019. The additional revenue is estimated to be approximately \$54,800. The FY 2020 adopted amount presented in the budget document reflects the increase in the recreational boat license tax.

The sales and use tax makes up approximately 3.8 percent (\$34.5 million) of the city's General Fund revenue and is levied on selling, distribution, leasing, or renting of tangible personal property, use or consumption of tangible personal property, as well as taxable services in Virginia. Revenue from this source is sensitive to the state of the economy, household income, and underlying price level changes. Current year collections is used in projecting next year's revenues as well as changes in the local retail activity (such as new businesses, expansions, closures, and job changes) and local economy are used for projecting this revenue. Adjustments made by the Virginia Department of



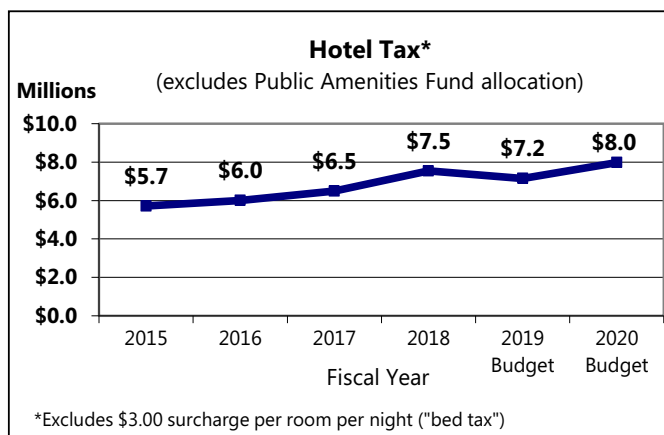
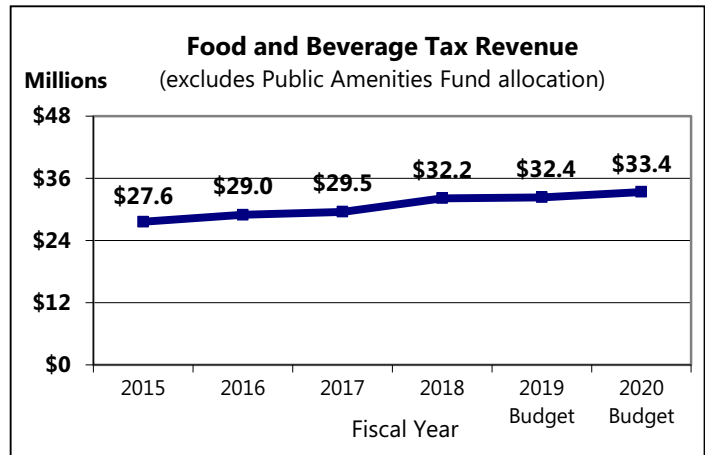
Taxation for overpayments and underpayments of the tax by businesses also affect collections. Sales taxes are projected to be above the FY 2019 budget by 1.0 percent (\$0.3 million) and above the FY 2019 end of year estimate by 2.4 percent (\$0.8 million), reflecting growth from recent economic developments citywide and projected opening of IKEA in April and offsets from announced retail closures.

Consumer utility taxes on water, gas, electricity, and the communications sales and use tax combined, make up approximately 4.1 percent or \$37.4 million of the city's General Fund revenue. The consumer utility tax is levied on the purchase of utility service including water, gas, and electricity. Monthly receipts are monitored and used as a basis for estimating the revenue yield, taking seasonal variations into consideration. The consumer utility tax on telephones, cell phones, and cable TV was abolished and replaced by a statewide uniform communications sales and use tax on January 1, 2007. The Emergency 911 (E-911) tax on telephones was also replaced by a statewide uniform \$0.75 tax per phone at the same time. The E-911 tax is distributed to the city together with the communications sales and use tax in one lump sum. Consequently, a portion of the city's communications sales and use tax is allocated and goes directly to support emergency communications (E-911) in the Emergency Preparedness and Response Special Revenue Fund (approximately \$3.6 million). The General Fund portion of the communications sales and use tax is estimated to be \$15.8 million in FY 2020, which is approximately 7.1 percent (\$1.2 million) below the FY 2019 budget. Since the inception of the tax, revenue has fluctuated due to adjustments for overpayments and underpayments of the tax by telecommunications service providers, and has trended down

due to changes in technology and lower utilization of communications services subject to the tax. State legislation to modernize local taxation authority to reflect technological changes in communication services were proposed during the 2018 General Assembly Session but were not enacted. The state also opted to retain \$2.0 million of communications sales and use tax revenues annually in FY 2019 and FY 2020 that would have gone to localities. Revenue from consumer utility taxes is estimated to decrease by approximately 3.0 percent (\$1.1 million) from the FY 2019 budget.

Taxes are collected on prepared food and beverages. The tax rate is 6.5 percent of the value of the meal. One percentage point is allocated to the Public Amenities Fund, and 5.5 percentage points is allocated to the General Fund. The revenue generated by 1.0 percentage point of the tax rate for the Public Amenities Fund is estimated to be nearly \$6.1 million in FY 2020, and the revenue generated from the 5.5 percentage points of the tax rate allocated to the General Fund is estimated to be approximately \$33.4 million. Total revenue estimated to be generated in FY 2020 by this food and beverage tax in the General Fund and Public Amenities Fund is approximately \$39.4 million, making this the largest source in the citywide

(all funds) “other local tax” category. Revenue from the food and beverage tax has grown steadily as the city continues to draw restaurants to open in several commercial districts such as, downtown Norfolk, the Military Highway corridor, and Ghent and Colley Avenue areas. This tax makes up 3.7 percent (\$33.4 million) of General Fund revenues and is approximately 3.2 percent (\$1.0 million) above the FY 2019 budget.



Hotel taxes are levied on occupied hotel rooms at the rate of 8.0 percent of the room charge. Similar to the food and beverage tax, one percentage point is allocated to the Public Amenities Fund and 7.0 percentage points is allocated to the General Fund. The revenue generated by 1.0 percentage point of the tax for the Public Amenities Fund is estimated to be approximately \$1.1 million in FY 2020, and the revenue generated from the 7.0 percentage points allocated to the General Fund is estimated to be approximately \$8.0 million in FY 2020. The total revenue estimated to be generated by the hotel tax in the General Fund and Public Amenities Fund combined is approximately \$9.1 million in FY 2020. Hotel

taxes make up 0.9 percent (\$8.0 million) of General Fund revenues in FY 2020 and is approximately 11.6 percent (\$0.8 million) above the FY 2019 budget. The FY 2020 estimate takes into account the opening of the Glass Light Hotel during calendar year 2019.

The hotel tax estimate does not include the \$3.00 surcharge per room night (“bed tax”), estimated to generate nearly \$3.3 million in FY 2020. The bed tax was enacted on April 1, 2006 at the rate of \$1.00 per room night with support from the Norfolk Hotel-Motel Association and the revenue designated for Norfolk Convention and Visitor’s Bureau (Visit Norfolk) for visitor promotion and advertising for conventions and tourism. In FY 2012, the bed tax was raised to \$2.00 per room night with the additional \$1.00 revenue designated for the Norfolk Consortium (see Outside Agencies section). In FY 2019, the bed tax was raised to \$3.00 per room night (current rate) to offset budget reductions to Outside Agencies (see Outside Agencies section).

Business license taxes are collected from entities that engage in a business, trade, profession, or occupation in the city. It is generally imposed as a percentage of gross receipts generated during a calendar year. It is also applied to

individuals that maintain a place of business, either permanent or temporary, or conduct a business-related activity. Business license tax rates vary depending on business classification and gross receipts generated. Norfolk's rates are at the state maximum allowed for the main business classifications. Revenue collections in recent years have been reduced by refunds of overpayments. This revenue source makes up approximately 3.4 percent (\$31.1 million) of General Fund revenues, which is projected to be below the FY 2019 budget by approximately 0.6 percent (or \$200,000) but is above the FY 2019 year-end estimate by approximately 0.7 percent (or \$225,000).

PERMITS AND FEES

Permits are issued to regulate new construction and ensure public safety. Revenues from this source are comprised of fees for permits, licenses, and other privileges subject to city regulation. The revenues partially cover the expense of providing regulatory services such as, taxi permits, zoning inspections, construction permits, right-of-way, and fire inspections in the city. Revenue from this source have generally fluctuated based upon the level of building construction activity in the city and large commercial projects.

In FY 2019, certain fees charged by the City Planning, Fire-Rescue, and Public Works departments were raised under the direction of a new fee philosophy which strives to recoup the costs of certain services provided by the city. In FY 2020, no permits and fees in the General Fund were adopted to be raised. Permits or fees are projected to be approximately 0.4 percent (\$3.4 million) of General Fund revenues which is 11.7 percent or \$0.4 million below the FY 2019 budget.

FINES AND FORFEITURES

Fines and forfeitures in the General Fund largely consist of revenues received from the courts as fines and forfeitures for violations of city ordinances. These provide approximately 0.1 percent (\$1.1 million) of General Fund revenues. The FY 2020 budget is approximately 7.7 percent or \$91,000 below the FY 2019 budget.

Citywide, fines and forfeitures total approximately \$3.5 million of revenues from all operating funds. Over two-thirds of the citywide amount are generated from parking fines which support the operations of the Parking Enterprise Fund (nongeneral fund).

USE OF MONEY AND PROPERTY

Revenue from use of money and property is comprised primarily of interest earned on cash balances, rents from short-term and long-term property leases, and prudent management of city assets. In FY 2020, revenue from this source makes up approximately 1.0 percent (\$8.6 million) of General Fund revenues and is approximately 15.7 percent or \$1.2 million above the FY 2019 budget. The increase is largely from interest revenue generated from the city's investments.

CHARGES FOR SERVICES

Charges for services include fees charged for various programs and services such as, recreation centers, Virginia Zoo, judicial services, paramedical rescue, Norfolk Public School activities, Norfolk Community Services Board (NCSB), Cruise Ship Terminal, and Nauticus. In FY 2020, charges for services make up approximately 2.9 percent (or \$26.0 million) of General Fund revenues. The FY 2020 budget is approximately 2.3 percent or \$0.6 million below the FY 2019 budget. The leveling of fees from school activities, paramedic rescue fees, recreation center fees, and zoo admissions offset an increase in anticipated revenue from cruise ships and services impacted by the Medicaid expansion.

Citywide, most of the revenue collected from this source are charges for services by nongeneral funds. Charges for services citywide make up nearly \$320 million (over ten times the amount in the General Fund). These charges are mostly from user fees for utilities, parking facilities, storm water, and refuse disposal. The rates for these user fees are set to ensure operations are fully supported by the fees collected. Adopted fee changes in FY 2020 include the \$2.00 increase in the waste management monthly charge to provide funds for the recycling program; and the storm water monthly charge to nonresidential customers were equalized with residential customers to provide funds for storm water flooding projects (see Selected Tax Rates and Fees section).

MISCELLANEOUS REVENUE

Miscellaneous revenue consists of revenues not classified in other categories and includes revenue from payments in lieu of taxes, fee for services provided to the U.S. Navy for the housing public-private venture, and land sales. In FY 2020, the city is estimating to receive \$9.2 million, which represents approximately 1.0 percent of General Fund revenues. The FY 2020 budget is approximately 3.0 percent or \$267,000 above the FY 2019 budget.

RECOVERED COSTS

Recovered costs consist of revenue from nongeneral funds, partner agencies, and the public for certain expenses, such as indirect cost, employee compensation, debt service, and communications and technology. In FY 2020, recovered costs make up approximately 1.3 percent (\$12.0 million) of General Fund revenues. The FY 2020 budget is approximately 2.6 percent or \$0.3 million above the FY 2019 budget. The FY 2020 increase from FY 2019 is largely due to the distribution and allocation of various costs attributed to nongeneral fund departments.

NON-CATEGORICAL AID - VIRGINIA

Non-categorical aid consists of revenue from the Commonwealth without restriction as to use. Non-categorical aid is estimated to be 4.0 percent (\$36.0 million) of General Fund revenues and is approximately 1.6 percent or \$550,000 above the FY 2019 budget. The increase is from the estimated revenue from HB 599 and the car rental tax. Although the Governor has not signed the 2018-2020 biennial budget bill, budget amendments agreed to by the House and Senate conferees (Conference Report) and the Governor's Proposed Amendments to the 2018-2020 budget retained the 3.9 percent increase in HB 599 funds in FY 2020. Norfolk's share of the increase is estimated to be approximately \$466,000.

SHARED EXPENSES

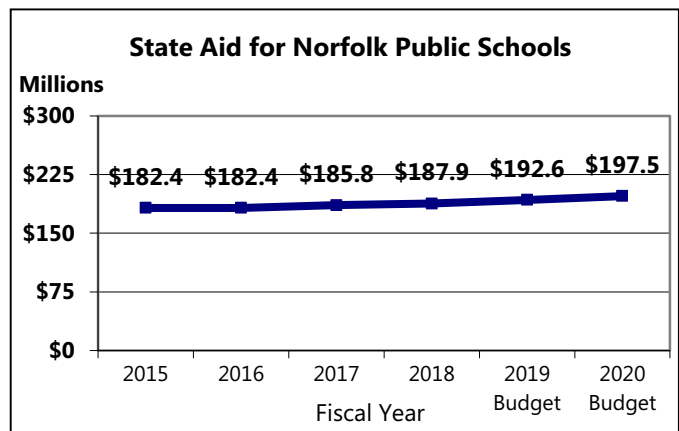
Shared expenses consist of recovered costs from the Commonwealth for a portion of the salaries and benefits of constitutional and other offices serving the Norfolk community, including the Norfolk Electoral Board, Sheriff, City Treasurer, Commissioner of the Revenue, Clerk of the Circuit Court, and Commonwealth's Attorney. Shared expenses make up approximately 2.5 percent (\$22.4 million) of General Fund revenues in FY 2020 which is 4.7 percent or \$1.0 million above the FY 2019 budget. The FY 2020 estimate reflects budget amendments agreed to by the House and Senate conferees (Conference Report). Although the Governor has not signed the 2018-2020 biennial budget bill, the Conference Report includes effective July 1, 2019, a three percent salary increase for locally-elected constitutional officers and their full-time employees, general registrars, and members of local electoral boards, and an additional three percent salary increase for general registrars.

STATE CATEGORICAL AID

Categorical aid from the Commonwealth consists mainly of revenues earmarked for Norfolk Public Schools, public assistance grants and social service programs, Norfolk Community Services Board (NCSB), Virginia Department of Transportation (VDOT) funding for street maintenance and localities that host port-owned facilities, and local adult correctional facility. In FY 2020, state categorical aid makes up approximately 30.3 percent (\$272.9 million) of General Fund revenues which is 1.9 percent or \$5.1 million above the FY 2019 budget. State categorical aid for Norfolk Public Schools, Human Services, and street maintenance are projected to increase in FY 2020, with the majority of the growth going to Norfolk Public Schools.

The majority of state categorical aid estimated to be received in FY 2020 is earmarked for Norfolk Public Schools, approximately \$197.5 million of the \$272.9 million. Categorical aid for Norfolk Public Schools includes the state sales and use tax and state school funds. State sales and use tax for schools is the revenue from the city's proportionate share of the state sales and use tax designated for public education. Since July 1, 2012, the city's share of the state sales and use tax is based on the population estimate provided by the Weldon Cooper Center for Public Service at the University of Virginia. Additionally in FY 2014, state sales and use tax dedicated to public education increased to 1½ cent due to the

statewide transportation bill. Prior to FY 2014, 1¼ cent of the state sales and use tax was dedicated to public education, which reflected the change in FY 2005 when half of the one-half cent sales and use tax increase adopted by the General Assembly was earmarked for local school divisions and real estate tax relief. Half of that quarter percent is distributed in the manner discussed above. The other half of the quarter percent goes to support the Standards of Quality (SOQ), which is included in state school funds. State school funds reflect schools operational costs. The rate of reimbursements is based on the SOQ formula with reimbursement rates varying by program and area of emphasis. Changes in enrollment figures affect this revenue source. Localities are required to match the state contribution based on a composite index. Currently, Norfolk provides more than its required share of local effort.



Categorical aid also includes the state reimbursement for the cost of operating the Department of Human Services and Norfolk Community Services Board, estimated to be approximately \$37.3 million and \$9.2 million, respectively. State aid are tied to operating costs that include the cost of personnel, fringe benefits, nonpersonal services, rent for buildings and parking, etc. The reimbursement rate of the overall costs varies by program.

The jail per diem estimate is approximately \$2.2 million in FY 2020 with no changes anticipated in the jail per diem rates based on the estimate provided by the Virginia Compensation Board. Since the 2016-2018 biennium, the amount appropriated by the Commonwealth has been based on the expected cost of jail per diems. In prior years, the General Assembly did not appropriate the full estimated statewide cost for jail per diems and the funding shortfall was addressed in the mid-biennium or caboose budget. However, if the appropriation falls short due to statewide inmate population being higher than anticipated, the Compensation Board will prorate the amounts distributed to local jails. The last time jail per diem rates were changed was during the 2010 session of the General Assembly. Since March 1, 2010, per diem payments for local responsible inmates in local or regional jails was reduced to \$4.00 per day from \$8.00 per day, while the per diem payments for state inmates housed in local jails was changed to \$12.00 per day from \$8.00 or \$14.00 per day (reflecting the \$6.00 bonus payment for certain state inmates). Payment for jail contract beds fell to \$8.00 per day from \$14.00 per day. These changes in the per diem rates resulted in approximately a \$2.0 million decline in jail per diem funding to the city.

Categorical aid also includes funds received from the Virginia Department of Transportation (VDOT) for street construction and maintenance and support for localities that host Virginia Port Authority owned real estate, estimated in total to be \$25.8 million in FY 2020. The funds for street construction and maintenance are received from VDOT to maintain the city's principal and minor arterials, collector roads, and local streets based on moving lane miles. The revenue allocated to the city is based on a statewide maintenance index of the unit costs used on roads and bridges. Changes in the index are used to calculate and implement annual per-land-mile rates. The rates fluctuate on index changes and number of miles assessed. These funds offset qualifying operating costs recorded in the city's budget.

FEDERAL AID

Aid from the federal government primarily includes funds for Norfolk Public Schools and Norfolk Community Services Board. Federal aid totals approximately \$8.7 million or 1.0 percent of General Fund revenues in FY 2020. The decrease of 1.8 percent (\$162,315) from the FY 2019 budget is largely due to funds related to the housing of federal inmates from the United States Marshals Service.

OTHER SOURCES AND TRANSFERS IN

Other sources and transfers in consist of intra-governmental transfers and carryforward funds. It totals approximately \$25.2 million or 2.8 percent of General Fund revenues in FY 2020. The FY 2020 amount is an increase of approximately \$4.0 million from FY 2019. Other sources and transfers in includes transfers in of \$19.9 million from nongeneral and capital projects funds including: Utilities (\$10 million); Tax Increment Financing Fund (\$6.35 million), which consists of the annual transfer of excess revenue (\$4.6 million) and use of remaining one-time TIF balance (\$1.7 million) for technology; Public Amenities Fund (\$3.0 million) to support the Norfolk Consortium (see Outside Agencies section), which is the same amount as in the previous year; Waste Management Fund (\$250,000); and unspent cash support of \$300,000 for the capital project "Strengthen Neighborhoods through Affordable Housing Initiatives" (see CIP ordinance for details). The remaining amount (\$5.3 million) consists of the carry forward of savings by city departments including Norfolk Community Services Board and closeout of accounts.

APPROPRIATIONS

Department	FY 2020 Adopted
GENERAL FUND	
LEGISLATIVE	
City Council	387,387
City Clerk	1,683,422
City Real Estate Assessor	2,168,245
City Auditor	976,749
Total Legislative	5,215,803
EXECUTIVE	
City Manager	2,517,452
Office of Budget and Strategic Planning	1,566,063
Office of Resilience	421,720
Office of Marketing and Communications	1,941,157
St. Paul's Area Transformation	3,658,000
Total Executive	10,104,392
DEPARTMENT OF LAW	4,905,409
CONSTITUTIONAL OFFICERS	
Commissioner of the Revenue	2,979,959
City Treasurer	2,503,713
Clerk of the Circuit Court	2,873,590
Commonwealth's Attorney	6,006,308
Sheriff and Jail	34,214,201
Total Constitutional Officers	48,577,771
JUDICIAL	
General District Court	276,608
Juvenile and Domestic Relations Court	79,933
Circuit Court Judges	812,827
Norfolk Juvenile Court Service Unit	161,713
Magistrate	10,874
Total Judicial	1,341,955
ELECTIONS	1,110,962
GENERAL MANAGEMENT	
Information Technology	16,789,497
Finance	6,114,197

Department	FY 2020 Adopted
General Services	25,757,355
Human Resources	3,657,170
Total General Management	52,318,219
COMMUNITY DEVELOPMENT	
City Planning	4,974,976
Neighborhood Development	4,923,765
Economic Development	2,371,835
Total Community Development	12,270,576
PARKS, RECREATION AND CULTURE	
Libraries	9,789,885
Cultural Facilities, Arts and Entertainment	6,167,660
Zoological Park	4,463,294
Nauticus	4,433,492
Slover Library	2,745,434
Recreation, Parks and Open Space	18,091,818
Total Parks, Recreation and Culture	45,691,583
CENTRAL AND OUTSIDE AGENCY APPROPRIATIONS	
Central Appropriations	16,080,133
Outside Agencies	54,386,258
Total Central and Outside Agency Appropriations	70,466,391
PUBLIC HEALTH AND ASSISTANCE	
Norfolk Community Services Board	25,078,661
Office to End Homelessness	0
Public Health	3,459,696
Human Services	49,308,700
Total Public Health and Assistance	77,847,057
PUBLIC SAFETY	
Police	77,618,592
Fire-Rescue	47,278,783
Total Public Safety	124,897,375
PUBLIC WORKS	16,996,849
TRANSIT	12,466,052
DEBT SERVICE	81,510,525
PUBLIC SCHOOL EDUCATION (Norfolk Public Schools)	336,161,810
Total General Fund¹	901,882,729

Department	FY 2020 Adopted
SPECIAL REVENUE FUNDS	
Towing and Recovery Operations	1,655,435
Cemeteries	1,964,731
Golf Operations	15,000
Public Amenities	10,111,300
Emergency Preparedness and Response	6,025,966
Tax Increment Financing	7,982,824
Waste Management	21,930,000
Total Special Revenue Funds	49,685,256
ENTERPRISE FUNDS	
Water Utility	96,922,975
Wastewater Utility	33,519,752
Storm Water Management	20,834,513
Parking Facilities	23,979,225
Total Enterprise Funds	175,256,465
INTERNAL SERVICE FUNDS	
Healthcare	92,248,194
Fleet Management	11,344,924
Total Internal Service Funds	103,593,118
TOTAL CITY OPERATIONS¹	1,230,417,568
CAPITAL IMPROVEMENT PLAN	133,885,700
ANNUAL GRANTS PLAN²	28,750,306
ANNUAL PLAN²	7,434,685
TOTAL APPROPRIATIONS	1,400,488,259

¹The FY 2020 Adopted amount reflects the budgetary impact of the recreational boat tax and license restructuring adopted by City Council on June 25, 2019.

²These amounts reflect the “up to” amount appropriated by the FY 2020 operating budget ordinance. The actual grant award will vary annually.

SELECTED TAX RATES AND FEES

Description	FY 2019 Adopted	FY 2020 Adopted
PROPERTY TAXES		
Real Estate (General Tax)	\$1.25/\$100 Assessed Value	\$1.25/\$100 Assessed Value
Real Estate (Downtown Improvement District)	\$1.41/\$100 Assessed Value	\$1.41/\$100 Assessed Value
Personal Property		
Airplane	\$2.40/\$100 Assessed Value	\$2.40/\$100 Assessed Value
Motor Vehicle	\$4.33/\$100 Assessed Value	\$4.33/\$100 Assessed Value
Recreational Vehicle	\$1.50/\$100 Assessed Value	\$1.50/\$100 Assessed Value
Business Furniture, Fixtures, and Equipment	\$4.33/\$100 Assessed Value	\$4.33/\$100 Assessed Value
Watercraft - Business	\$1.50/\$100 Assessed Value	\$1.50/\$100 Assessed Value
Watercraft - Recreational	\$0.50/\$100 Assessed Value	\$0.25/\$100 Assessed Value
Machinery & Tools	\$4.25/\$100 Assessed Value	\$4.25/\$100 Assessed Value
OTHER LOCAL TAXES		
Amusement and Admissions	10%	10%
Cigarette	95 cents/pack of 20 cigarettes (47.5 mils/cigarette)	95 cents/pack of 20 cigarettes (47.5 mils/cigarette)
Emergency 911 (Landline)	Replaced by the statewide E-911 tax rate of \$0.75/line/month	Replaced by the statewide E-911 tax rate of \$0.75/line/month
Hotel/Motel Lodging	8%	8%
Bed Tax	\$3.00 per room night	\$3.00 per room night
Food and Beverage	6.5%	6.5%
Recreational Boat License:		
Boats under 16 feet in length	\$10.00	\$15.00
Boats 16 feet and over in length	\$25.00	\$40.00
Motor Vehicle License:		
Small Trailers (<2,000 pounds)	\$11.50	\$11.50
Motorcycles	\$20.00	\$20.00
Cars and Small Trucks	\$31.00	\$31.00
Mid-Size Trucks/Vans (>4,000 pounds)	\$36.00	\$36.00
Large Vehicles (over 19,000 pounds)	\$1.60-\$1.80/1,000 pounds of gross weight (additional \$5 flat fee)	\$1.60-\$1.80/1,000 pounds of gross weight (additional \$5 flat fee)

Description	FY 2019 Adopted	FY 2020 Adopted
REFUSE DISPOSAL		
Residential		
Single or Multiple Units (four units or less)	\$25.01/unit/month	\$27.01/unit/month
Multiple Units (five units or more)	\$43.94/container/month	\$45.94/container/month
Commercial		
Business 1 times per week	\$61.18/unit/month	\$61.18/unit/month
Business 5 times per week	\$151.64/unit/month	\$151.64/unit/month
Combined Commercial and Residential	\$86.19/unit/month	\$88.19/unit/month
WATER AND WASTEWATER UTILITY FEES		
Water	\$5.11/100 cubic feet	\$5.29/100 cubic feet
Wastewater	\$4.30/100 cubic feet	\$4.47/100 cubic feet
STORM WATER FEES (rate calculated based on a 30-day month)		
Residential	\$11.70/month	\$12.05/month
Commercial	\$8.38/month per 2,000 sq. ft.	\$12.05/month per 2,000 sq. ft.
UTILITY TAXES		
Commercial		
Gas	Rate/month: \$3.225 + \$0.167821/CCF 0-70 CCF + \$0.161552/CCF 71-430 CCF + \$0.15363/CCF on balance (maximum of \$500/month)	Rate/month: \$3.225 + \$0.167821/CCF 0-70 CCF + \$0.161552/CCF 71-430 CCF + \$0.15363/CCF on balance (maximum of \$500/month)
Electricity (Manufacturing)	Rate/month: \$1.38 + \$0.004965/kWh 0-3,625,100 kWhs + \$0.004014/kWh on balance (maximum of \$53,000/month)	Rate/month: \$1.38 + \$0.004965/kWh 0-3,625,100 kWhs + \$0.004014/kWh on balance (maximum of \$53,000/month)
Electricity (Non-Manufacturing)	Rate/month: \$2.87 + \$0.017933/kWh 0-537 kWh + \$0.006330/kWh on balance	Rate/month: \$2.87 + \$0.017933/kWh 0-537 kWh + \$0.006330/kWh on balance
Telephone (Cellular, Landline)	Replaced by the State Communications Sales & Use Tax 5% of sales price of services	Replaced by the State Communications Sales & Use Tax 5% of sales price of services
Water	25% on first \$75, plus 15% of bill in excess of \$75	25% on first \$75, plus 15% of bill in excess of \$75
Residential		
Cable and Satellite Service Telephone (Cellular, Landline)	Replaced by the State Communications Sales & Use Tax	Replaced by the State Communications Sales & Use Tax
Electricity	\$1.75 + \$0.016891/kWh monthly (capped at \$3.75/month)	\$1.75 + \$0.016891/kWh monthly (capped at \$3.75/month)
Gas	\$1.50/month	\$1.50/month
Water (5/8" Meter)	25% on first \$22.50/month	25% on first \$22.50/month

GENERAL FUND BALANCE RESERVES

The establishment and maintenance of general operating reserves is considered one of the most effective management practices a local government can employ. The purpose of a reserve is to act as the city's "savings" account to meet emergency, unanticipated needs without jeopardizing the ongoing provision of city services. Reserves help to cushion against cash flow challenges such as providing an interim source of funding for emergency costs from a significantly large unexpected expenses such as a hurricane. The appropriate size of reserves depends on variability of revenues and expenditures and an organization's cash flow needs.

City Council's resolution passed on February 26, 2019, updated the city's policies on reserves, debt affordability, and surplus funds utilization, and adopted new financial policies on pension funding and enterprise fund financial management. The city's financial policies demonstrate its commitment to consistent financial practices, operational efficiencies and best practices. Sound financial management practices contribute to maintaining high city credit ratings and lower borrowing costs for capital projects, preserve fiscal integrity, and promote long-term fiscal sustainability. The Financial Policies section provides more details on the updated policies.

General Fund Balance Reserves

Reserve	FY 2018 Actual	FY 2019 Minimum	FY 2019 Maximum	FY 2019 Projected
General Fund Unassigned Reserve¹	\$43,118,803	\$64,105,989	N/A	\$65,962,327
Risk Management Reserve²	\$5,000,000	\$5,000,000	\$8,000,000	\$5,310,000
Economic Downturn Reserve	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
Inclusive Development Opportunity Fund	\$0	\$2,000,000	\$2,000,000	\$0
General Fund Balance Reserves at June 30³	\$53,118,803			\$76,272,327

¹The FY 2018 actual amount is equal to five percent (5%) of the final FY 2018 General Fund Budget of \$862,376,054. The FY 2019 amounts are based on the updated financial policies adopted by City Council on February 26, 2019. The minimum FY 2019 General Fund unassigned reserve is based upon ten percent (10%) of General Fund expenditures, plus General Fund transfers out as of June 30, 2018. The projected FY 2019 General Fund unassigned reserved is based upon the unassigned fund balance as of June 30, 2018, minus the Economic Downturn Reserve.

² The projected FY 2019 Risk Management Reserve includes the FY 2018 General Fund surplus (\$310,000).

³ The amounts above exclude reserves for encumbrances and other legally restricted reserves and designations for specific appropriations.

ESTIMATED GENERAL FUND - FUND BALANCE

Beginning General Fund - Fund Balance, July 1, 2018 (CAFR)*		\$124,572,364
Add Revenues**		
Revenues (excluding transfers)	\$859,551,763	
Return from utilities and waste management funds	10,000,000	
Return from tax increment financing fund	4,253,465	
Public amenities fund support for Norfolk Consortium	3,000,000	
Total Fund Balance and Revenues		\$1,001,377,592
Less: Anticipated Expenditures**		
Norfolk Public Schools operating budget	\$328,355,950	
Public safety	121,884,798	
Public health and assistance	77,345,454	
Other city departments	204,598,066	
Central appropriations and outside agencies	77,110,296	
Debt service	71,493,862	
Projected Fund Balance at June 30, 2019 with anticipated expenditures		\$120,589,166
Less Anticipated Uses of Fund Balance:	\$0	
Total Estimated Fund Balance at June 30, 2019		\$120,589,166

*Amount reported in the FY 2018 Comprehensive Annual Financial Report (CAFR)

**Reflects amounts in the Adopted FY 2019 General Fund Budget

SUMMARY OF CHANGES IN FUND BALANCE

General Fund

	FY 2018 Actual	FY 2019 Adopted	FY 2020 Adopted
Operating Revenues			
General property taxes	272,292,962	296,531,400	305,436,500
Other local taxes	163,653,948	169,805,000	170,844,800
Permits and fees	3,298,466	3,836,785	3,387,500
Fines and forfeitures	1,067,796	1,185,000	1,094,000
Charges for services	23,456,647	26,591,119	25,990,999
Miscellaneous	24,999,761	8,952,217	9,219,102
Recovered costs	11,774,831	11,695,852	12,005,487
Commonwealth	318,448,415	324,661,480	331,369,049
Federal	7,775,547	8,871,490	8,709,175
Total Operating Revenues	826,768,373	852,130,343	868,056,612
Operating Expenses			
Personnel services	283,968,325	302,874,451	308,452,048
Contractual services	45,665,730	43,936,223	47,855,677
Materials, supplies and repairs	38,559,928	40,395,548	39,189,519
Department specific appropriation	377,113,043	400,681,061	402,821,053
Public assistance	12,839,283	14,655,895	14,713,285
Total Operating Expenses	758,146,309	802,543,178	813,031,582
Operating Income (Loss)	68,622,064	49,587,165	55,025,030
Non-Operating Revenues (Expenses)			
Use of money and property	7,652,925	7,421,420	8,588,191
Capital outlay	(2,196,478)	(4,543,701)	(4,506,325)
Debt service	(70,617,439)	(70,706,606)	(76,222,377)
Acctg. for Encumbrances for Budget not GAAP	(9,540,996)	0	0
Total Non-Operating Revenue/Expense	(74,701,988)	(67,828,887)	(72,140,511)
Income (Loss) Before Operating Transfers	(6,079,924)	(18,241,722)	(17,115,481)
Operating transfers in	16,888,089	17,253,465	19,900,499
Operating transfers out	(2,355,710)	(2,994,941)	(8,122,445)
Total Operating Transfers	14,532,379	14,258,524	11,778,054
Net Change in Fund Balance	8,452,455	(3,983,198)	(5,337,427)
Beginning Fund Balance at July 1	116,119,909	124,572,364	120,589,166
Ending Fund Balance at June 30	124,572,364	120,589,166	115,251,739

Note: FY 2018 actual amounts based upon figures in the city's Comprehensive Annual Financial Report.

Special Revenue Funds

	FY 2018 Actual	FY 2019 Adopted	FY 2020 Adopted
Operating Revenues			
General property taxes	5,266,000	5,855,000	6,268,000
Other local taxes	10,484,922	10,474,596	10,778,596
Fines and forfeitures	0	12,000	11,000
Charges for services	40,682,607	38,422,956	23,286,086
Miscellaneous	145,211	586,334	515,998
Recovered costs	0	1,769,551	1,605,463
Commonwealth	2,041,046	81,000	100,000
Federal	88,195	0	113,617
Total Operating Revenues	58,707,981	57,201,437	42,678,760
Operating Expenses			
Personnel services	16,552,844	20,459,901	13,485,311
Contractual services	13,253,978	11,426,232	10,894,740
Materials, supplies and repairs	5,061,882	4,727,611	2,610,642
Department specific appropriation	4,549,652	1,521,135	643,801
Total Operating Expenses	39,418,356	38,134,879	27,634,494
Operating Income (Loss)	19,289,625	19,066,558	15,044,266
Non-Operating Revenues (Expenses)			
Use of money and property	22,273	826,130	825,565
Capital outlay	(1,486,455)	(3,570,125)	(2,635,900)
Gain/(Loss)-Sale of fixed assets & investments	0	20,214	0
Debt service	(9,282,319)	(10,039,016)	(8,064,363)
Total Non-Operating Revenue/Expense	(10,746,501)	(12,762,797)	(9,874,698)
Income (Loss) Before Operating Transfers	8,543,124	6,303,761	5,169,568
Operating transfers in	1,068,454	1,507,685	1,619,297
Operating transfers out	(9,203,289)	(8,568,665)	(11,350,499)
Total Operating Transfers	(8,134,835)	(7,060,980)	(9,731,202)
Net Change in Fund Balance*	408,289	(757,219)	(4,561,634)
Beginning Fund Balance at July 1	21,296,986	21,705,275	20,948,056
Storm Water Fund Balance (estimated to be included in Enterprise Funds)**	0	0	(4,038,765)
Ending Fund Balance at June 30	21,705,275	20,948,056	12,347,657

*The FY 2020 amount largely reflects the change in fund balance of the Public Amenities Fund and Tax Increment Financing Fund. See Public Amenities Fund and Tax Increment Financing sections for details.

**In FY 2018 and FY 2019, Storm Water Management Fund is classified as a special revenue fund. Beginning in FY 2020, the Storm Water Management Fund will become an enterprise fund. The estimated FY 2020 amount reflects the fund balance of the Storm Water Management Fund as of June 30, 2018.

Note: FY 2018 actual amounts based upon figures in the city's Comprehensive Annual Financial Report.

SUMMARY OF CHANGES IN NET ASSETS

Enterprise Funds

	FY 2018 Actual	FY 2019 Adopted	FY 2020 Adopted
Operating Revenues			
Permits and fees	0	664,500	867,780
Fines and forfeitures	0	1,750,000	2,435,660
Charges for services	139,291,143	139,050,195	167,083,596
Miscellaneous	2,060,653	186,900	232,240
Recovered costs	0	1,341,600	1,003,600
Total Operating Revenues	141,351,796	142,993,195	171,622,876
Operating Expenses			
Personnel services	32,300,705	29,240,087	36,025,940
Contractual services/Materials, supplies and repairs	28,168,278	34,234,552	37,742,864
Depreciation	27,823,276	0	0
Department specific appropriation	0	5,735,067	10,184,858
Total Operating Expenses	88,292,259	69,209,706	83,953,662
Operating Income (Loss)	53,059,537	73,783,489	87,669,214
Non-Operating Revenues (Expenses)			
Use of money and property	670,788	630,000	1,373,565
Capital outlay	0	(763,074)	(1,880,499)
Intergovernmental revenue	142,057	0	0
Miscellaneous revenue (expense)	(1,211)	0	0
Gain/(Loss)-Sale of fixed assets & investments	12,654	7,400	7,400
Debt service	(17,144,044)	(62,788,098)	(61,207,104)
Total Non-Operating Revenue/Expense	(16,319,756)	(62,913,772)	(61,706,638)
Income (Loss) Before Operating Transfers	36,739,781	10,869,717	25,962,576
Capital Contribution	144,186	0	0
Operating transfers in	0	0	0
Operating transfers out	(10,000,000)	(12,900,000)	(28,215,200)
Total Operating Transfers/Capital Contribution	(9,855,814)	(12,900,000)	(28,215,200)
Net Income (Loss)	26,883,967	(2,030,283)	(2,252,624)
Beginning Net Assets at July 1	437,473,540	465,528,686	463,498,403
Restatement Related to OPEB	1,171,179	0	0
Storm Water Fund Balance (estimated for FY 2020)*	0	0	4,038,765
Ending net assets at June 30	465,528,686	463,498,403	465,284,544

*Beginning in FY 2020, the Storm Water Management Fund will become an enterprise fund. The estimated FY 2020 amount reflects the fund balance of the Storm Water Management Fund as of June 30, 2018.

Note: FY 2018 actual amounts based upon figures in the city's Comprehensive Annual Financial Report.

Internal Service Funds

	FY 2018 Actual	FY 2019 Adopted	FY 2020 Adopted
Operating Revenues			
Charges for services	90,428,356	103,843,839	103,495,753
Miscellaneous	16,197	0	0
Recovered costs	0	63,865	63,865
Total Operating Revenues	90,444,553	103,907,704	103,559,618
Operating Expenses			
Personnel services	3,304,535	3,731,050	3,780,854
Cost of Goods Sold	3,671,782	0	0
Contractual services	73,324,995	95,894,272	95,701,382
Materials, supplies and repairs/Other	4,015,220	4,284,382	4,074,882
Depreciation	242,963	0	0
Total Operating Expenses	84,559,495	103,909,704	103,557,118
Operating Income (Loss)	5,885,058	(2,000)	2,500
Non-Operating Revenues (Expenses)			
Use of money and property	0	3,500	3,500
Capital outlay	0	(31,500)	(36,000)
Miscellaneous revenue (expense)	0	0	0
Gain/(Loss)-Sale of fixed assets & investments	0	30,000	30,000
Total Non-Operating Revenue/Expense	0	2,000	(2,500)
Income (Loss) Before Operating Transfers	5,885,058	0	0
Operating transfers in	0	0	0
Operating transfers out	0	0	0
Total Operating Transfers	0	0	0
Net Income (Loss)	5,885,058	0	0
Beginning Net Assets at July 1	673,322	6,237,150	6,237,150
Restatement Related to OPEB	(321,230)	0	0
Ending net assets at June 30	6,237,150	6,237,150	6,237,150

Note: FY 2018 actual amounts based upon figures in the city's Comprehensive Annual Financial Report.

TRANSFERS FROM/TO

The tables below present certain fund to fund transfers which include: General Fund support of capital projects and special revenue funds; transfers from enterprise activities and special revenue funds to the General Fund; and cash contribution from General Fund and nongeneral funds for capital projects.

Transfer from General Fund to

FY 2020

Capital Improvement Program	6,503,148
Cemetery Fund	447,637
Emergency Preparedness and Response Fund	1,171,660
Grants Fund (estimated) ¹	3,948,572
Total Transfers from General Fund	12,071,017

Transfer to General Fund from

Capital Improvement Program ²	300,000
Public Amenities Fund	3,000,000
Tax Increment Financing Fund	6,350,499
Waste Management Fund	250,000
Wastewater Utility Fund	1,500,000
Water Utility Fund	8,500,000
Total Transfers to General Fund	19,900,499

Transfer to Capital Improvement Program from

General Fund	6,503,148
Parking Facilities Fund	2,900,000
Public Amenities Fund	1,750,000
Storm Water Management Fund	1,315,200
Wastewater Utility Fund	5,000,000
Water Utility Fund	14,000,000
Total Transfers to the Capital Improvement Program	31,468,348

¹ Amount of funds expected to be awarded in FY 2020. See Annual Grants Plan section for details. Actual amount transferred from the General Fund to the Grants Fund will vary based upon the actual grant award.

² Transfer of unspent cash support for the capital project "Strengthening Neighborhoods through Affordable Housing Initiatives". See Section 4 of the CIP ordinance for details.

FULL TIME EQUIVALENT (FTE) STAFFING SUMMARY

	FY 2018 Adopted FTE	FY 2019 Adopted FTE	FY 2020 Adopted FTE	Change FY 2019 to FY 2020
General Fund				
Budget and Strategic Planning	18.0	16.0	19.0	3.0
Circuit Court Judges	5.0	5.0	5.0	0.0
City Attorney	34.0	34.0	34.0	0.0
City Auditor	9.0	9.0	9.0	0.0
City Clerk	14.0	15.0	14.0	-1.0
City Council	8.0	8.0	8.0	0.0
City Manager	14.0	14.0	13.0	-1.0
City Planning	65.0	62.0	63.0	1.0
City Real Estate Assessor	24.0	24.0	25.0	1.0
City Treasurer	31.0	31.0	31.0	0.0
Clerk of Circuit Court	49.0	49.0	49.0	0.0
Commissioner of the Revenue	42.0	38.0	38.0	0.0
Commonwealth's Attorney	59.0	60.0	61.0	1.0
Cultural Facilities, Arts & Entertainment	54.0	54.0	50.0	-4.0
Economic Development	21.0	17.0	18.0	1.0
Elections	6.0	6.0	6.0	0.0
Finance Department	58.0	53.0	56.0	3.0
Fire-Rescue	504.0	504.0	504.0	0.0
General Services and Administration	131.0	128.2	132.2	4.0
Human Resources	36.0	33.0	33.0	0.0
Human Services	525.5	476.0	481.0	5.0
Information Technology	90.0	82.0	91.0	9.0
Libraries	134.6	130.2	98.5	-31.7
Nauticus	40.3	27.3	28.0	0.8
Neighborhood Development	56.0	53.0	52.0	-1.0
Norfolk Community Services Board	289.1	263.1	265.3	2.2
Office of Marketing and Communications	15.0	16.0	18.0	2.0
Office of Resilience	3.0	3.0	4.0	1.0
Office to End Homelessness ¹	3.0	3.0	0.0	-3.0
Police	874.0	874.0	873.0	-1.0
Public Health	11.0	8.5	8.5	0.0
Public Works	226.0	207.0	142.0	-65.0

	FY 2018 Adopted FTE	FY 2019 Adopted FTE	FY 2020 Adopted FTE	Change FY 2019 to FY 2020
Recreation, Parks and Open Space	216.7	203.7	209.0	5.3
Sheriff and Jail	447.0	447.0	447.0	0.0
Slover Library ²	0.0	0.0	27.0	27.0
St. Paul's Area Transformation ³	0.0	0.0	4.0	4.0
Transit ⁴	0.0	0.0	66.0	66.0
Zoological Park	51.1	50.3	52.6	2.3
Total General Fund	4,164.3	4,004.3	4,035.1	30.8
Special Revenue Funds				
Cemeteries	32.8	32.8	31.0	-1.8
Emergency Preparedness and Response	90.0	82.0	83.0	1.0
Towing and Recovery Operations	9.9	8.9	8.9	0.0
Waste Management	101.0	105.0	106.0	1.0
Total Special Revenue Funds	233.7	228.7	228.9	0.2
Enterprise Funds				
Storm Water Management	112.0	99.0	103.0	4.0
Parking Facilities	65.0	63.2	63.2	0.0
Wastewater Utility	105.0	103.0	103.0	0.0
Water Utility	292.5	290.5	290.5	0.0
Total Enterprise Funds	574.5	555.7	559.7	4.0
Internal Service Funds				
Fleet	56.8	53.8	52.0	-1.8
Healthcare	0.0	2.0	2.0	0.0
Total Internal Service Funds	56.8	55.8	54.0	-1.8
Total All Funds	5,029.3	4,844.5	4,877.7	33.2

Note: Totals may not add up due to rounding.

Only permanent positions are reflected in the Budget Document.

¹Homelessness services are being transferred to Norfolk Community Services Board beginning in FY 2020.

²The FY 2020 Budget establishes Slover Library as a department.

³The FY 2020 Budget establishes St. Paul's Area Transformation as a division within the Office of Resilience.

⁴The FY 2020 Budget establishes the Department of Transit.

CITY INDEBTEDNESS

The Virginia Constitution authorizes cities and counties in Virginia to issue general obligation bonds secured by a pledge of its full faith and credit. For the payment of such bonds, the governing body of the city is required to levy an ad valorem tax on all property subject to local taxation to ensure debt service payment. The issuance of general obligation bonds is subject to a limit of 10 percent of the assessed value of taxable real property in the city.

The Public Finance Act of Virginia authorizes a city in Virginia to issue limited liability revenue bonds provided that the rates, rents, fees or other charges are sufficient to pay the cost of operation and administration and the principal and interest on the bonds when due. In determining general obligation statutory debt limitations, certain classes of indebtedness may be excluded, including revenue anticipation notes maturing in one year or less, general obligation bonds payable from a specified revenue producing undertaking, so long as the undertaking is self-supporting, capital leases, and revenue bonds. The city's Wastewater enterprise operations finance capital needs through a combination of self-supporting, general obligation and revenue bonds and the water enterprise utilizes only revenue bonds for its financing needs. The city's Parking, Storm Water, Nauticus, Towing and Recovery, and Waste Management operations finance capital needs with self-supporting general obligation bonds.

The following table shows the estimated general obligation Legal Debt Margin for the current fiscal year as of June 30, 2019, and for the past four fiscal years.

As of	Taxable Real Property Assessed Value ⁽¹⁾	Debt Limit: 10% of Assessed Value	Debt Applicable to Debt Limit	Amount of Debt as % of Debt Limit	Legal Margin for Additional Debt
June 30, 2019 ^{(2) (3)}	20,283,253,904	2,028,325,390	1,018,842,562	50.23%	1,009,482,829
June 30, 2018	19,870,880,970	1,987,088,097	1,079,595,115	54.33%	907,492,982
June 30, 2017	19,433,889,018	1,943,388,902	1,065,983,734	54.85%	877,405,168
June 30, 2016	19,106,737,956	1,910,673,796	988,381,838	51.73%	922,291,958
June 30, 2015	18,734,201,726	1,873,420,173	914,299,379	48.80%	959,120,794

(1)The figure includes the assessed valuation of the following properties: public service corporations (as assessed by the State Corporation Commission and the Virginia Department of Taxation); and residential, commercial, apartments and vacant land (as assessed by the City Assessor).

(2)Taxable Real Property Assessed Value is estimated as of March 31, 2019.

(3)Projected Debt Applicable to Debt Limit excludes \$176,607,747 of General Obligation Bonds authorized by ordinance for Capital Improvement Projects, but not yet issued.

OVERLAPPING DEBT

The City of Norfolk is autonomous and independent of any county or other political subdivision and is not subject to taxation by any county or school district, nor is it liable for any county or school division indebtedness. Currently, there is no overlapping debt.

STATEMENT OF NO PAST DEFAULT

The city has never defaulted on the payment of either principal or interest on its general obligation debt.

OUTSTANDING DEBT

Debt service for General Capital Improvements is funded from the General Fund. The debt of the enterprise and other fee-supported operations are paid from the respective revenues. The estimated total outstanding bonded indebtedness, including revenue bonds, at the end of FY 2019 is estimated to be \$1,355,296.

GENERAL CAPITAL IMPROVEMENTS–AFFORDABILITY MEASURES

City Council's resolution, passed on February 26, 2019, updated the city's policies on debt affordability measures. The city's financial policies demonstrate its commitment to sound financial practices and recognize that they contribute to maintaining the city's high credit ratings and lower borrowing costs for capital projects, preserve fiscal integrity, and promote long-term fiscal sustainability. The Capital Improvement Plan (CIP) for General Capital Improvements (bonds not supported by self-supporting user fees) is now guided by five measures of affordability. These measures, or internal debt limits, are as follows:

- Debt Service as a percent of the General Fund budget (target will remain below 10 percent, with a not to exceed of 11 percent of the General Fund budget)
- Net Debt as a percent of taxable property (target will remain below 3.5 percent, with a not to exceed of 4 percent of the total assessed value of taxable property)
- Ten-year General Obligation Payout Ratio (retirement of the principal amount of the long-term general obligation bonds by at least 55 percent or greater within 10 years)
- Overlapping Debt Limit (overlapping debt not to exceed 0.5 percent of total assessed value of taxable property)
- Variable Rate Debt Limits (the city's outstanding debt with variable interest rate will not exceed 20 percent by fund)

The FY 2020 Capital Improvement Plan is within the five measures of affordability listed above, and the city plans to continue to target a debt to taxable property ratio of 3.5 percent or less and a debt service to budget expenditures ratio of 10 percent or less by striving to maintain a moderate CIP with a focus of maintenance and rehabilitation of existing infrastructure. However, the new policy levels provide the city flexibility to consider projects of significance and importance in moving the city forward in addressing our resiliency challenges of coastal flooding, neighborhoods resiliency, and economic vibrancy.

ENTERPRISE OPERATIONS DEBT

Norfolk's Water and Wastewater Revenue Bond programs are governed by bond indentures of trust and financing agreements, which specify debt coverage requirements for their respective operations. Each of the revenue bond programs are backed by the revenues of their respective system. The city has covenanted that it will establish, fix, charge and collect rates, fees, and other charges so that in each Fiscal Year Net Revenues are not less than the debt service coverage requirement. All revenue bond programs, historically and estimated for FY 2020 meet debt coverage requirements. As previously noted, outstanding Wastewater bonds are a combination of general obligations of the city and revenue bonds and Water bonds are solely revenue bonds. The city's Parking operations finance capital needs with self-supporting general obligation bonds. As a matter of practice, the city pays such general obligation bonds from its respective enterprise activities. In the event that money in the respective funds is not sufficient to pay debt service on the general obligations, the city is obligated to pay such debt service from the General Fund or other available revenues.

BOND RATINGS

Bond or credit ratings are an independent opinion of the general creditworthiness of an issuer, such as the city, based on relevant risk factors. Long-term general obligation ratings are based on an issuer's ability and willingness to repay fully the principal and interest of its debt obligations, on a timely basis. Municipal credit ratings are primarily based on four main factors: the issuer's financial position, the issuer's current and future debt burden, financial management and the economy. Often an investor places significant emphasis on a bond's credit rating to help evaluate a price or willingness to hold the investment.

Each of the three major credit rating agencies in the U.S.: Moody's Investors Service ("Moody's"), S&P Global Ratings ("S&P") and Fitch Ratings ("Fitch") applies its own methodology in measuring creditworthiness and uses a specific rating scale to communicate its ratings opinions. Typically, ratings are expressed as letter grades that range, from 'AAA' to 'D' to communicate the agency's opinion of relative level of credit risk. Credits are further distinguished with "notches" within each rating category. Credit ratings for the city's General Obligation and Water Revenue Bond programs are as follows:

Bonding Program	Moody's	S&P	Fitch
General Obligation	Aa2	AA+	AA+
Water Revenue	Aa2	AA+	AA+

Norfolk's rating on its General Obligations Bonds of Aa2/AA+/AA+ and its Water Revenue Bonds of Aa2/AA+/AA+ are very strong and continue to assist the city in achieving least cost of funds to finance key capital projects throughout the city. All agencies reaffirmed the city's General Obligation long-term ratings in January 2019, and previously reaffirmed the city's Water Revenue long-term ratings in February 2018. In general, AA category rating signifies very high-quality bonds with some elements of long-term risks.

In addition to being reaffirmed, S&P maintained the city's positive outlook highlighting Norfolk's "strong economy," its "very strong budgetary flexibility and strong budgetary performance" and "very strong management conditions with strong policies and practices" in addition to "its ability to consistently maintain balanced operations." The positive outlook reflects S&P's opinion that there is a one-in-three chance it could raise the city's rating within one year.

The city's Wastewater Revenue Bonds do not maintain an underlying, or stand-alone unenhanced, credit rating.

Computation of Legal Debt Margin

June 30, 2019 (Estimated)

Total Assessed Value of Taxed Real Property as of March 31, 2019		\$20,283,253,904
Debt Limit: 10 percent of Total Assessed Value		\$2,028,325,390
Amount of Debt Applicable to Debt Limit: ⁽¹⁾⁽²⁾⁽³⁾		
Gross Debt	\$975,762,562	
Line of Credit	\$29,260,000	
Economic Development Authority Note	\$13,820,000	\$1,018,842,562
Legal Debt Margin		\$1,009,482,829
Amount of Debt as a percent of Debt Limit		50.23%

(1) Includes all nongeneral fund supported General Obligation debt such as Wastewater, Parking, Storm Water, Nauticus, Towing and Recovery Operations, and Waste Management.

(2) The Legal Debt Margin computation does not include any revenue bond debt issued by the city, because such debt is not subject to the Commonwealth's Constitutional Debt Limit.

(3) Excludes \$176,607,747 of General Obligation Bonds authorized by ordinance for Capital Improvement Projects, but not yet issued.

YEARLY MATURITY OF LONG-TERM DEBT

Fiscal Year	General Obligation ^{(1) (2)}			General Obligation Equipment ⁽¹⁾			Water Revenue ⁽¹⁾		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2020	62,618,394	42,410,539	105,028,933	5,345,000	629,817	5,974,817	13,830,000	15,044,375	28,874,375
2021	63,770,827	39,799,378	103,570,205	4,580,000	404,008	4,984,008	15,965,000	14,311,275	30,276,275
2022	62,666,300	37,065,337	99,731,637	2,020,000	247,450	2,267,450	17,170,000	13,504,400	30,674,400
2023	61,917,940	34,342,091	96,260,031	2,030,000	147,800	2,177,800	18,335,000	13,027,150	31,362,150
2024	61,910,777	31,626,700	93,537,476	585,000	84,025	669,025	19,440,000	11,700,150	31,140,150
2025	56,718,057	29,022,120	85,740,177	460,000	56,500	516,500	18,075,000	10,768,525	28,843,525
2026	57,507,366	26,401,424	83,908,790	355,000	36,125	391,125	19,170,000	9,843,900	29,013,900
2027	58,227,782	23,715,353	81,943,135	355,000	18,375	373,375	12,010,000	9,058,700	21,068,700
2028	51,428,171	21,244,746	72,672,916	190,000	4,750	194,750	12,700,000	8,431,750	21,131,750
2029	42,929,198	19,082,023	62,011,221	-	-	-	13,505,000	7,774,775	21,279,775
2030	42,015,290	17,056,669	59,071,959	-	-	-	8,700,000	7,210,638	15,910,638
2031	42,485,290	15,051,030	57,536,320	-	-	-	9,395,000	6,790,450	16,185,450
2032	38,650,290	12,767,913	51,418,203	-	-	-	9,695,000	6,392,538	16,087,538
2033	40,200,290	10,866,635	51,066,924	-	-	-	8,080,000	5,953,569	14,033,569
2034	30,280,290	9,288,293	39,568,583	-	-	-	8,515,000	5,465,138	13,980,138
2035	27,385,290	7,954,573	35,339,863	-	-	-	9,000,000	4,984,694	13,984,694
2036	27,915,290	6,699,220	34,614,510	-	-	-	9,485,000	4,566,325	14,051,325
2037	28,175,290	5,398,496	33,573,785	-	-	-	8,565,000	4,216,613	12,781,613
2038	25,595,290	4,126,900	29,722,190	-	-	-	9,015,000	3,838,506	12,853,506
2039	17,140,145	3,199,590	20,339,735	-	-	-	9,490,000	3,393,394	12,883,394
2040	4,915,000	2,746,166	7,661,166	-	-	-	7,705,000	2,987,144	10,692,144
2041	5,105,000	2,521,278	7,626,278	-	-	-	8,075,000	2,622,906	10,697,906
2042	5,300,000	2,303,361	7,603,361	-	-	-	8,480,000	2,167,838	10,647,838
2043	6,715,000	2,045,045	8,760,045	-	-	-	8,920,000	1,620,488	10,540,488
2044	7,010,000	1,716,735	8,726,735	-	-	-	10,050,000	1,079,869	11,129,869
2045	7,335,000	1,362,606	8,697,606	-	-	-	10,590,000	541,981	11,131,981
2046	7,665,000	992,253	8,657,253	-	-	-	1,685,000	223,875	1,908,875
2047	8,015,000	605,051	8,620,051	-	-	-	1,770,000	137,500	1,907,500
2048	5,355,000	275,810	5,630,810	-	-	-	1,865,000	46,625	1,911,625
2049	2,890,000	72,250	2,962,250	-	-	-	-	-	-
Total	959,842,567	411,759,585	1,371,602,148	15,920,000	1,628,850	17,548,850	309,280,000	177,705,091	486,985,091

*Fiscal Year amounts may not add to total due to rounding.

YEARLY MATURITY OF LONG-TERM DEBT (CONTINUED)

Fiscal Year	Wastewater Revenue ⁽¹⁾			Totals ⁽¹⁾		
	Principal	Interest	Total	Principal	Interest	Total
2020	4,331,919	-	4,331,919	86,125,313	58,084,731	144,210,044
2021	4,519,419	-	4,519,419	88,835,246	54,514,662	143,349,908
2022	4,706,919	-	4,706,919	86,563,219	50,817,187	137,380,406
2023	4,706,919	-	4,706,919	86,989,859	47,517,041	134,506,900
2024	4,706,919	-	4,706,919	86,642,696	43,410,875	130,053,571
2025	4,706,919	-	4,706,919	79,959,977	39,847,145	119,807,122
2026	4,706,919	-	4,706,919	81,739,285	36,281,449	118,020,734
2027	4,706,919	-	4,706,919	75,299,701	32,792,428	108,092,129
2028	4,706,919	-	4,706,919	69,025,090	29,681,246	98,706,336
2029	4,706,919	-	4,706,919	61,141,117	26,856,798	87,997,915
2030	4,281,919	-	4,281,919	54,997,209	24,267,307	79,264,516
2031	3,856,919	-	3,856,919	55,737,209	21,841,480	77,578,689
2032	3,481,919	-	3,481,919	51,827,209	19,160,451	70,987,660
2033	2,981,919	-	2,981,919	51,262,209	16,820,204	68,082,413
2034	2,749,419	-	2,749,419	41,544,709	14,753,431	56,298,140
2035	2,226,936	-	2,226,936	38,612,225	12,939,267	51,551,492
2036	1,686,952	-	1,686,952	39,087,242	11,265,545	50,352,787
2037	1,218,476	-	1,218,476	37,958,766	9,615,108	47,573,874
2038	735,579	-	735,579	35,345,869	7,965,406	43,311,275
2039	537,500	-	537,500	27,167,645	6,592,984	33,760,629
2040	375,000	-	375,000	12,995,000	5,733,309	18,728,309
2041	187,500	-	187,500	13,367,500	5,144,184	18,511,684
2042	-	-	-	13,780,000	4,471,199	18,251,199
2043	-	-	-	15,635,000	3,665,533	19,300,533
2044	-	-	-	17,060,000	2,796,604	19,856,604
2045	-	-	-	17,925,000	1,904,588	19,829,588
2045	-	-	-	9,350,000	1,216,128	10,566,128
2047	-	-	-	9,785,000	742,551	10,527,551
2048	-	-	-	7,220,000	322,435	7,542,435
2049	-	-	-	2,890,000	72,250	2,962,250
Total	70,826,728	-	70,826,728	1,355,869,296	591,093,526	1,946,962,821

(1) Existing Debt Service as of June 30, 2019. Exclusive of amount borrowed on the Line of Credit, Economic Development Authority Note and any future bond issuance.

(2) General Obligation bonds have been used to finance Wastewater, Parking, Storm Water, Nauticus, and Towing and Recovery projects. The bonded debt associated with those projects is self-supported by the respective funds. The Debt Service portion of the General Fund budget finances only General Capital projects and not its self-supporting funds.

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